

Board Meeting Agenda

Russ Baggerly, Director
Mary Bergen, Director
Bill Hicks, Director

Pete Kaiser, Director
James Word, Director

CASITAS MUNICIPAL WATER DISTRICT
October 12, 2011
3:00 P.M. – DISTRICT OFFICE

Right to be heard: Members of the public have a right to address the Board directly on any item of interest to the public which is within the subject matter jurisdiction of the Board. The request to be heard should be made immediately before the Board's consideration of the item. No action shall be taken on any item not appearing on the agenda unless the action is otherwise authorized by subdivision (b) of ¶54954.2 of the Government Code and except that members of a legislative body or its staff may briefly respond to statements made or questions posed by persons exercising their public testimony rights under section 54954.3 of the Government Code.

1. Public comments.
 2. General Manager comments.
 3. Board of Director comments.
 4. Consent Agenda
 - a. Minutes of the September 28, 2011 Board Meeting.
 - b. Resolution authorizing the execution of an agreement with Ernst and Young for audit services for the State Water Project.
- RECOMMENDED ACTION: Adopt Consent Agenda
5. Bills
 6. Committee/Manager Reports
 - a. Recreation Committee Minutes
 - b. Executive Committee Minutes
 7. Resolution approving a grant from the California Department of Boating and Waterways in the amount of \$80,000 for a new patrol boat and trailer for Lake Casitas Recreation Area.

RECOMMENDED ACTION: Adopt Resolution

8. Recommend approval of a purchase order to Chaulk Mound Trout Ranch in the amount of \$29,997.15 for the purchase of live rainbow trout.

RECOMMENDED ACTION: Motion Approving Recommendation

9. Resolution setting the time and place of a public hearing for input regarding the proposed changes in fees for the Lake Casitas Recreation Area.

RECOMMENDED ACTION: Adopt Resolution

10. Resolution awarding a contract to Oilfield Electric Company in the amount of \$140,650 for the Upper Ojai Pump Plant Electrical Upgrades, Specification 10-347.

RECOMMENDED ACTION: Adopt Resolution

11. Recommend approval of the Sanitary Survey Update - 2011.

RECOMMENDED ACTION: Motion Approving Recommendation

12. Information Items:

- a. Monthly Cost Analysis for operation of Robles, fisheries and fish passage.
- b. Recreation Area Report for August, 2011.
- c. Information pertaining to the Ojai FLOW request of the District to acquire Golden State Water Company's Ojai water system.
- d. News Articles.
- e. Investment Report.

13. Adjournment

If you require special accommodations for attendance at or participation in this meeting, please notify our office 24 hours in advance at (805) 649-2251, ext. 113. (Govt. Code Section 54954.1 and 54954.2(a).

Minutes of the Casitas Municipal Water District
Board Meeting Held
September 28, 2011

A meeting of the Board of Directors was held September 28, 2011 at Casitas' Office, Oak View, California. Directors Kaiser, Baggerly, Word, Hicks, and Bergen were present. Also present were Steve Wickstrum, General Manager, Rebekah Vieira, Clerk of the Board, and Attorney, Bob Krimmer. There were four staff members and no members of the public in attendance. President Kaiser led the group in the flag salute.

1. Public comments.

None

2. General Manager comments.

Mr. Wickstrum reported that he had received a letter from the Bureau of Reclamation stating they had received our appeal regarding the recreation reform act forms and fines the Bureau assessed and it may take some time for the Bureau to come to a determination. He then informed the Board that the Ojai Chamber of Commerce will hold their mixer on October 27th at Lake Casitas Recreation Area.

3. Board of Director comments.

Director Hicks reported on his water issues meeting which included a tour through the tomato plant on Laguna Road. It is 125 acres under roof and they collect water and recycle 66% of their water. They produce 17 times more tomatoes inside than outside.

Director Word reported his attendance at the Ventura County Regional Energy Alliance on Tuesday. In October the VCREA will be reviewing how they operate and are organized and how they are funded. They are currently funded from the PUC through the utility companies. The utility companies don't want to spend the money. The energy alliance is a clearing house and reference point for energy related items. There is a push to expand it and include water issues with it. After the October meeting we will find out if it is viable for us and we might want to consider continuing on. The current restrictions preclude us from participating with projects. Additionally they are looking at combining counties.

Director Kaiser reported an informal meeting he and Mr. Wickstrum had with the Chair of the San Lorenzo Water District. He also mentioned a book, Dollars and Cents that includes information on a FLOW issue up in Felton that he is reading and can make available to the board members to read. Mr. Wickstrum added that as we discussed in Water Resources we are gathering information and background regarding Ojai Flow and there will be things we need to consider

coming to some direction and will be working through that in the next couple of months.

4. Consent Agenda ADOPTED

- a. Minutes of the September 14, 2011 Board Meeting.
- b. Resolution directing execution of a joint funding agreement between United States Geological Survey and Casitas Municipal Water District

The Consent Agenda was offered by Director Word, seconded by Director Bergen and passed by the following roll call vote:

AYES: Directors: Bergen, Hicks, Word, Baggerly, Kaiser
NOES: Directors: None
ABSENT: Directors: None

Resolution is numbered 11-19.

5. Bills APPROVED

On the motion of Director Hicks, seconded by Director Bergen and passed, the bills were approved.

6. Committee/Manager Reports APPROVED FOR FILING

- a. Executive Committee Minutes
- b. Finance Committee Minutes
- c. Water Resources Committee Minutes

On the motion of Director Word, seconded by Director Hicks and passed, the Committee/Manager Reports were approved for filing.

7. Signing of the Management Agreement for the Administration, Operation, Maintenance, and Development of Recreation Uses and Facilities at Lake Casitas between the United States and Casitas Municipal Water District. APPROVED

Mr. Wickstrum mentioned the hard work that was put in by Director Baggerly, Director Word and Park Services Manager Belser. This agreement establishes how we are going to work with the Bureau. It is a living document and we have created a document we can live with and are proud and happy that we are at this point with this agreement. Director Bergen congratulated them for the hard work and stated it is a great accomplishment. Mr. Wickstrum added there have been some positive changes in their personnel who want to work with us and trust has been developed on both sides of the table to get an agreement that fits our lake. Director Word gave a lot of credit to Cheryl and her ability to understand our situation and to explain that we are right. Without that they had a hard time grasping that Casitas is different. Director Baggerly added that the

Bureau usually owns the reservoir and the water and have a non federal partner running recreation. Everything in the Ventura River Project was transferred to this district in 1958. We have run it for over 50 years. We own the water. It took some time for them to understand that we are different. We created a document that will serve this district well for this term.

On the motion of Director Baggerly, seconded by Director Word, the signing of the Management Agreement for Lake Casitas Recreation Area was approved by the following roll call vote:

AYES:	Directors:	Bergen, Hicks, Word, Baggerly, Kaiser
NOES:	Directors:	None
ABSENT:	Directors:	None

Resolution is numbered 11-20.

8. Report to the Board regarding the Dog Bite Incident.

Mr. Wickstrum provided information to the board regarding an incident that involved an employee being bitten by a loose dog. The safety incident report has been completed and we are looking at ways to reduce these risks and request your support in improving our safety.

Park Services Manager Belser explained some of the resources and training that staff has received and showed some of the equipment that is available. Dog bite issues have been discussed with staff and training is set up with animal control. The employee has returned to work. She also mentioned flyers that have been developed in English and Spanish and permanent signs are on order. She also explained that both of their responding units have contained restraint poles for a number of years.

On the motion of Director Word, seconded by Director Bergen and passed, the report was approved for filing.

9. Information Items:

- a. News Articles.
- b. Investment Report.

Attorney Bob Krimmer announced that we would be moving to closed session at 3:50 p.m. regarding anticipated litigation under section 54956.9 b on a claim filed by Stanley Revell.

10. Closed Session

- a. (Govt. Code Sec. 54956.9)
Conference with Legal Counsel – Anticipated Litigation

Significant exposure to litigation pursuant to subdivision (b) of Section 54956.9 Number of potential cases: 1.

The meeting was reconvened in open session at 3:57 p.m.

On the motion of Director Baggerly, seconded by Director Word and passed, the claim of Stanley Revell was rejected.

11. Adjournment

President Kaiser adjourned the meeting at 3:58 p.m.

Secretary, James Word

CASITAS MUNICIPAL WATER DISTRICT

A RESOLUTION AUTHORIZING EXECUTION OF AN AGREEMENT BETWEEN
CASITAS MUNICIPAL WATER DISTRICT AND ERNST AND YOUNG FOR
AUDIT SERVICES FOR THE STATE WATER PROJECT

WHEREAS, the State Water Contractors annually require audit services from an independent auditor; and

WHEREAS, the State Water Contractors has required that the audit firm of Ernst and Young perform these services; and

WHEREAS, the cost of these services is pro-rated between the various users who have entitlements to the State Water; and

WHEREAS, these costs are shared between the three agencies of United Water Conservation District, the City of Ventura and Casitas; and

WHEREAS, the cost in 2010 was \$5,677;

NOW, THEREFORE BE IT RESOLVED, that the Board of Directors hereby authorized and directs the President of the Board to sign the audit agreement for Casitas approving Exhibits A and B only at a cost not to exceed \$5,677.

ADOPTED this 12th day of October, 2011.

Pete Kaiser, President
Casitas Municipal Water District

ATTEST:

James Word, Secretary
Casitas Municipal Water District

July 28, 2011

Mr. Steven Wickstrum
Casitas Municipal Water District
General Manager
1055 Ventura Ave.
Oak View, California 93022-9622

Dear Mr. Wickstrum:

This letter, together with the attached Exhibits and Attachments (collectively, this "Agreement"), sets forth the terms and conditions on which Ernst & Young (EY) will perform certain professional services as described in Exhibits A and B (collectively, the "Services") for Casitas Municipal Water District (the "Agency"), a member of the State Water Contractors Independent Audit Association (IAA), for the twelve months ending June 30, 2012.

The Services are advisory in nature and will not constitute an audit performed in accordance with Generally Accepted Accounting Principles. EY will perform the Services in accordance with the Statement of Standards for Consulting Services (CS100) of the American Institute for Certified Public Accountants (AICPA). As part of your review of the terms of this Agreement, please refer to the enclosed letter from Ms. Valerie Pryor of the IAA Audit Contract Negotiating Committee dated July 27, 2011.

The Services and the information, records, data, advice or recommendations contained in any reports, materials, presentations or other communications, written or otherwise, in draft or final form, provided by EY (collectively, "Reports") are intended solely for the information and use of the Agency's management. The Agency may not rely on any verbal Reports (that are not confirmed by EY in writing) or draft written Reports. Except where compelled by legal process (of which the Agency shall promptly inform EY and tender to EY, if EY so elects, the defense) the Agency may not disclose, orally or in writing, any Report or any portion, abstract or summary thereof, or make any reference to EY in connection therewith, to any third party without obtaining the prior written consent of EY. To the extent the Agency is permitted to disclose any written Report as set forth herein, it shall disclose such Report only in the original, complete and unaltered form provided by EY, with all restrictive legends and other agreements intact. The IAA may provide a copy of the Reports to management of the Department of Water Resources (DWR) for the purposes of examining the findings, recommendations and comments as they relate to DWR and the IAA.

Fees and expenses

The total fees for these services to be rendered to the Agency, as well as an allocation of the total fees for each member agency of the IAA, appear in Exhibits A, B, and C attached (no procedures or fees have been allocated to Exhibit C in this contract). Our total fees pursuant to Exhibits A and B to be charged to all members of the IAA entering into agreements with us shall not exceed \$451,920 for the twelve months ending June 30, 2012. This amount is consistent with the twelve months ended June 30, 2011 to keep fees chargeable to individual agencies consistent with the prior year, while the overall level of effort related to the execution of these procedures will remain unchanged. This agreement will not be effective unless, in addition to the Agency, a sufficient number of other IAA agencies enter into agreements with us for such Services such that our total fees are not less than 80% of \$451,920. If all agencies who are presently participating in the services rendered by our firm enter into agreements with us for this twelve-month

period, the maximum fees for our services to your Agency will not exceed \$5,677 for Exhibits A and B. However, if not all of the agencies presently participating in agreements with us enter into agreements with us for services during the twelve-month period ending June 30, 2012, the maximum fees to your Agency will vary between the above-mentioned amount and \$7,097, which represents the maximum fees should sufficient agencies enter into agreements with us for total fees of not less than 80%.

In addition to the maximum fees under Exhibit A and B, maximum fees under Exhibit C shall not exceed a total of \$50,000 or \$635 for the Agency unless agreed to by the IAA. As noted above, no procedures have been allocated to Exhibit C. Prior to any expenditures under Exhibit C, said work must be specifically requested in writing in advance of any work being performed. Areas of potential focus for Exhibit C projects could include procedures agreed to by EY and the IAA in advance related to in one or more of the items identified in Exhibit A. In recent years Exhibit C special projects have included projects such as assessing implementation and billing issues relating to the new SAP based Cost Allocation and Repayment Analysis System ("CARA"), and studies to evaluate a pay-as-you-go system for funding conservation related operating costs incurred by the Department.

We have also included Exhibit D as part of this contract, which provides the opportunity for individual Contractors to enter into separate agreements for services with EY. There are currently no fees related to Exhibit D included herein.

The results of our procedures will include a presentation of our findings, observations and recommendations to be held in Sacramento, California for any interested Contractors. Any presentations requested at individual Contractor locations will be negotiated with the individual Contractor under Exhibit D and will be paid for by that Contractor.

Other matters

The Agency shall, among other responsibilities with respect to the Services, (i) make all management decisions and perform all management functions, including applying independent business judgment to EY work products, making implementation decisions and determining further courses of action in connection with any Services; (ii) assign a competent employee within senior management to make all management decisions with respect to the Services, oversee the Services and evaluate their adequacy and results; and (iii) accept responsibility for the implementation of the results or recommendations contained in the Reports or otherwise in connection with the Services. The Agency hereby confirms that management of the Agency accepts responsibility for the sufficiency of the Services. In performing the Services neither EY nor EY's partners or employees will act as an employee of the Agency.

The Agency represents and warrants to EY that the Agency's execution and delivery of this Agreement has been authorized by all requisite corporate or other applicable entity action and the person signing this Agreement is expressly authorized to execute it on behalf of, and to bind, the Agency.

The performance of the Services and the parties' obligations in connection therewith are subject to the additional terms and conditions set forth in Attachments 1 and 2.

Except for a claim limited solely to seeking non-monetary or equitable relief, any dispute or claim arising out of or relating to the Services, this Agreement, or any other services provided by or on behalf of EY or any of its subcontractors or agents to the Agency or at the Agency's request (including any matter involving any third party for whose benefit any such services are provided), shall be resolved by mediation or arbitration

as set forth in Attachment 2 to this Agreement. Judgment on any arbitration award may be entered in any court having jurisdiction.

It is understood that the Agency is not bound by our findings in any controversy or disagreement between the Agency and the Department of Water Resources should the Agency disagree with our findings.

We would also request that, if any IAA member discovers discrepancies in billings or other financial statements relative to their State Water Project costs, in addition to your working with the Department to correct the error, please notify EY for potential future inclusion as part of their procedures related to all IAA members.

EY appreciates the opportunity to be of assistance to the Agency. If this Agreement accurately reflects the terms on which the Agency has agreed to engage EY, please sign the enclosed copy on behalf of the Agency and return it to Darin Carlsen at the address provided above.

Yours very truly,

ERNST & YOUNG

Casitas Municipal Water District



By: Darin Carlsen
Partner

By: _____

Title: _____

Date: _____

CASITAS MUNICIPAL WATER DISTRICT
Payable Fund Check Authorization
Checks Dated 9/30/11-10/6/11
Presented to the Board of Directors For Approval October 12, 2011

Check	Payee			Description	Amount
000285	Payables Fund Account	#	9759651478	Accounts Payable Batch 093011	\$235,930.57
000286	Payables Fund Account	#	9759651478	Accounts Payable Batch 100611	\$251,740.07
					\$487,670.64
000287	Payroll Fund Account	#	9469730919	Estimated Payroll 10/20/11	\$130,000.00
					\$130,000.00
				Total	\$617,670.64

Publication of check register is in compliance with Section 53065.6 of the Government Code which requires the District to disclose reimbursements to employees and/or directors.

The above numbered checks, 000285-000287 have been duly audited is hereby certified as correct.

Denise Collin 10/10/11
Denise Collin, Accounting Manager

Signature

Signature

Signature

A/P Fund

Publication of check register is in compliance with Section 53065.6 of the Government Code which requires the District to disclose reimbursements to employees and/or directors.

000285	A/P Checks:	010042-010061
	A/P Draft to P.E.R.S.	
	A/P Draft to State of CA	
	A/P Draft to I.R.S.	
	Void:	
000286	A/P Checks:	010062-010147
	A/P Draft to P.E.R.S.	100613
	A/P Draft to State of CA	100612
	A/P Draft to I.R.S.	100611
	Void:	010082, 010106-010108

The above numbered checks, have been duly audited are hereby certified as correct.

Denise Collin 10/6/11

Denise Collin, Accounting Manager

Signature

Signature

Signature

CERTIFICATION

Payroll disbursements for the pay period ending 10/01/11
Pay Date of 10/06/11
have been duly audited and are
hereby certified as correct.

Signed: Denise Collin
Denise Collin

Signed: _____
Signature

Signed: _____
Signature

Signed: _____
Signature

VENDOR I.D.	NAME	STATUS	CHECK DATE	INVOICE AMOUNT	DISCOUNT	CHECK NO	CHECK STATUS	CHECK AMOUNT
1	Jack W Plasmyer I-000201109230463 TS Refund	R	9/30/2011	85.00		010042		85.00
1	Michael Werber I-000201109230464 TS Refund	R	9/30/2011	70.00		010043		70.00
1	Yolanda Castro Nava I-000201109280465 UB Refund	R	9/30/2011	65.84		010044		65.84
1	Ian Livingston I-000201109280466 UB Refund	R	9/30/2011	60.00		010045		60.00
1	Susan Churchill I-000201109280468 UB Refund	R	9/30/2011	60.00		010046		60.00
1	Alicia Feliciano I-000201109280470 UB Refund	R	9/30/2011	24.43		010047		24.43
1	Stacie Merkes I-000201109280467 UB Refund	R	9/30/2011	3.12		010048		3.12
1	Rothdale 1 LLC I-000201109280469 UB Refund	R	9/30/2011	6.67		010049		6.67
1	Jim Backner I-000201109280473 UB Refund	R	9/30/2011	55.46		010053		55.46
1	Robin Newberger I-000201109280471 UB Refund	R	9/30/2011	56.16		010054		56.16
1	Michael K Shizuru I-000201109280472 UB Refund	R	9/30/2011	18.91		010055		18.91
00004	ACWA HEALTH BENEFITS AUTHORITY							
	I-Oct 11 Oct 11 Health Insurance	R	9/30/2011	103,338.14		010056		
	I-Sep 11 Sep 11 Health Insurance	R	9/30/2011	103,338.14		010056		206,676.28
01616	FRED BRENEMAN							
	I-091311 PD 9/4/11-9/17/11	R	9/30/2011	391.00		010057		
	I-092611 PD 9/18/11-10/1/11	R	9/30/2011	391.00		010057		782.00
00216	THE GAS COMPANY							
	I-092611 Acct#00801443003	R	9/30/2011	490.70		010058		
	I-092611A Acct#18231433006	R	9/30/2011	53.87		010058		544.57

Voided Checks arent printing on this report. Incode called and incident # 1919929 sent to Incode Programming on 10/6/11.

VENDOR SET: 01 Casitas Municipal Water D
 BANK: AP ACCOUNTS PAYABLE
 DATE RANGE: 9/30/2011 THRU 10/06/2011

VENDOR I.D.	NAME	STATUS	CHECK DATE	INVOICE AMOUNT	DISCOUNT	CHECK NO	CHECK STATUS	CHECK AMOUNT
00131 I-523769	JCI JONES CHEMICALS, INC Chlorine for TP, CM#523792	R	9/30/2011	1,587.60		010059		1,587.60
00215 I-092711 I-092811	SOUTHERN CALIFORNIA EDISON Acct#2210507034 Acct#2210503702	R R	9/30/2011 9/30/2011	16,506.06 8,527.87		010060 010060		25,033.93
01985 I-093011	AFLAC/FLEX ONE Reimburse Medical 2011	R	9/30/2011	800.60		010061		800.60
00010 I-103476301 I-103476302	AIRGAS WEST Ear Plugs for Pipeline Crew Ear Plugs for Pipeline Crew	R R	10/06/2011 10/06/2011	25.31 25.31		010062 010062		50.62
00011 I-110900847101	ALERT COMMUNICATIONS Call Center 10/11	R	10/06/2011	170.50		010063		170.50
00014 I-246682	AQUA-FLO SUPPLY Hand Pump and Bushing, PP	R	10/06/2011	31.87		010064		31.87
01703 I-32826 I-32827	ARNOLD, BLEUEL, LAROCHELLE, Matter No 5088-008 8/11 Matter No 5088-001, 8/11 Svcs	R R	10/06/2011 10/06/2011	2,160.00 3,513.00		010065 010065		5,673.00
01666 I-000002647067 Acct#C604513638777 I-000002672197	AT & T Local, Regional, Long Distance T-1 Lines Acct#C602222128777	R R	10/06/2011 10/06/2011	758.92 903.86		010066 010066		1,662.78
00030 I-1234283000101 I-1234943000101	B&R TOOL AND SUPPLY CO Circuit Mapper, Telemetry Replace Cord for Drill, Maint	R R	10/06/2011 10/06/2011	857.66 21.83		010067 010067		879.49
00548 C-100611 I-100611	Lisa Barbee Registration Pd by CC Cash Advance for Calpers Forum	R R	10/06/2011 10/06/2011	300.00CR 980.16		010068 010068		680.16
02283 I-Aug 11 I-Jul 11	Mary Bergen Reimburse Mileage 8/11 Reimburse Mileage 7/11	R R	10/06/2011 10/06/2011	6.16 8.21		010069 010069		14.37
01979 I-5648	CAL 2000, Inc. dba The Rain Dr Rain Gutters for Casitas #1	R	10/06/2011	1,319.00		010070		1,319.00

VENDOR SET: 01 Casitas Municipal Water D
BANK: AP ACCOUNTS PAYABLE
DATE RANGE: 9/30/2011 THRU 10/06/2011

VENDOR I.D.	NAME	STATUS	CHECK DATE	INVOICE AMOUNT	DISCOUNT	CHECK NO	CHECK STATUS	CHECK AMOUNT
00044	CALIFORNIA ELECTRIC SUPPLY I-8997757417 Motor Protection Relay For Rincon Pump Plant Unit #2	R	10/06/2011	2,622.66		010071		2,622.66
00945	CAMCO BREAKER & CONTROLS, INC. I-24628 Replace Circuit Breaker For Telemetry	R	10/06/2011	64.35		010072		64.35
00675	Central Coast Radiology Associ I-080511 DOS 8/5/11 Claim#11-95561	R	10/06/2011	18.81		010073		18.81
00057	CLEAN SOURCE I-262197300 Janitorial Supplies Dist Ofc	R	10/06/2011	234.41		010074		234.41
00511	Community Memorial Hospital I-080511 DOS 8/5/11 Claim#11-95564 I-080911 DOS 8/9/11 Claim#11-95564 I-081111 DOS 8/11/11 Claim#11-95564 I-083011 DOS 8/30/11 Claim#11-95561	R R R R	10/06/2011 10/06/2011 10/06/2011 10/06/2011	42.02 204.93 56.93 35.72		010075 010075 010075 010075		339.60
01055	Neil Cole I-Sep 11 Reimburse Expenses 9/11	R	10/06/2011	144.70		010076		144.70
01469	COMMUNITY IMAGING MEDICAL GRP I-050211 DOS 5/2/11 Claim#11-93056	R	10/06/2011	34.75		010077		34.75
01902	Conaway Ice Inc. I-173071 Ice Blocks for Fisheries	R	10/06/2011	68.64		010078		68.64
00062	CONSOLIDATED ELECTRICAL I-9009646892 Electrical Supplies for PP	R	10/06/2011	112.96		010079		112.96
01588	CONSULTING WEST ENGINEERS I-CMWD1106 Elec Engineer Svcs, UOPP I-CMWD1107 Elec Engineer Svcs, Fairview	R R	10/06/2011 10/06/2011	6,700.00 6,170.00		010080 010080		12,870.00
01483	CORVEL CORPORATION I-650539031 Bill Review I-652450791 Bill Review I-652451121 Bill Review I-652600701 Bill Review I-652657631 Bill Review I-652657741 Bill Review I-652915901 Bill Review I-652920171 Bill Review I-652920381 Bill Review I-652924941 Bill Review I-652924981 Bill Review	R R R R R R R R R R R R	10/06/2011 10/06/2011 10/06/2011 10/06/2011 10/06/2011 10/06/2011 10/06/2011 10/06/2011 10/06/2011 10/06/2011 10/06/2011 10/06/2011	21.61 74.50 6.53 70.76 3.44 78.46 213.44 6.78 22.87 6.63 7.26		010081 010081 010081 010081 010081 010081 010081 010081 010081 010081 010081		

VENDOR SET: 01 Casitas Municipal Water D
BANK: AP ACCOUNTS PAYABLE
DATE RANGE: 9/30/2011 THRU 10/06/2011

VENDOR I.D.	NAME	STATUS	CHECK DATE	INVOICE AMOUNT	DISCOUNT	CHECK NO	CHECK STATUS	CHECK AMOUNT
I-652925011	Bill Review	R	10/06/2011	7.26		010081		
I-652925591	Bill Review	R	10/06/2011	1.26		010081		
I-652925691	Bill Review	R	10/06/2011	21.61		010081		
I-652944051	Bill Review	R	10/06/2011	5.05		010081		547.46
02214	CS-amscoc							
I-5722	Apco 3" Check Valve, TP	R	10/06/2011	431.46		010083		431.46
00296	CUMMINS CAL PACIFIC, LLC							
I-00636886	Relay Monitor for TP Generator	R	10/06/2011	603.23		010084		603.23
00662	Diamond A Equipment							
I-WX03902	Repair, Eq#116, Backhoe, PL	R	10/06/2011	242.89		010085		242.89
00085	DON'S INDUSTRIAL SUPPLIES, INC							
I-346867	Hydrant Spanner,O & M Cust Svc	R	10/06/2011	21.26		010086		21.26
00086	E.J. Harrison & Sons Inc							
I-2346	Acct#1C-00053370 Trash Pickup	R	10/06/2011	114.55		010087		114.55
00091	ERNST & YOUNG LLP							
I-US0130496635	2nd Progress Billing Acctg Svc	R	10/06/2011	1,135.00		010088		1,135.00
10120	CHARLES Z. FEDAK & COMPANY							
I-093011	Sept 11 Audit Services	R	10/06/2011	1,798.00		010089		1,798.00
00013	FERGUSON ENTERPRISES INC							
I-0386892	Galvanized Pipe Supports, PP	R	10/06/2011	1,339.34		010090		
I-0387173	Couplings for WH Inventory	R	10/06/2011	1,439.89		010090		
I-0387176	Elbows and Tees, WH Inventory	R	10/06/2011	675.25		010090		
I-7533504	Valve for Back Showerhouse	R	10/06/2011	135.95		010090		
I-7574841	Grab Bars for LCRA Maint	R	10/06/2011	84.31		010090		3,674.74
00099	FGL ENVIRONMENTAL							
I-109029A	Wet Chemistry-NO3	R	10/06/2011	36.00		010091		
I-109030A	Wet Chemistry-NO3	R	10/06/2011	18.00		010091		
I-109575A	Metals, Total-Mn	R	10/06/2011	70.00		010091		124.00
00104	FRED'S TIRE MAN							
I-52637	Oil Change, Eq#27, LCRA Truck	R	10/06/2011	39.61		010092		39.61
00106	FRONTIER PAINT							
I-F153249	Spray Tip for Paint Sprayer	R	10/06/2011	26.90		010093		
I-F153304	Pump Conditioner for Sprayer	R	10/06/2011	8.78		010093		
I-F153416	Primer for Pipeline	R	10/06/2011	15.04		010093		
I-F153420	Chip Brush for Fortress PP	R	10/06/2011	2.18		010093		52.90

VENDOR I.D.	NAME	STATUS	CHECK DATE	INVOICE AMOUNT	DISCOUNT	CHECK NO	CHECK STATUS	CHECK AMOUNT
00115	GRAINGER, INC							
I-9637218844	Handicap Traffic Signs, LCRA	R	10/06/2011	127.23		010094		
I-9646523788	Fuses for Telemetry	R	10/06/2011	30.64		010094		157.87
00746	GREEN THUMB INTERNATIONAL							
C-447664	Credit Inv#447664	R	10/06/2011	1.32CR		010095		
I-447664	Plants for Dist Ofc Landscape	R	10/06/2011	37.98		010095		36.66
02287	Hand Works, Inc.							
I-090111	DOS 9/1/11 Claim#11-95564	R	10/06/2011	86.73		010096		
I-090611	DOS 9/6/11 Claim#11-95564	R	10/06/2011	86.73		010096		
I-090811	DOS 9/8/11 Claim#11-95564	R	10/06/2011	64.85		010096		238.31
00122	BILL HICKS							
I-Aug-Sep 11	Reimburse Mileage 8/11-9/11	R	10/06/2011	245.31		010097		245.31
01594	HIGHWAY TECHNOLOGIES, INC.							
I-65087685001	Traffic Vests for Front Gate	R	10/06/2011	93.74		010098		93.74
00596	HOME DEPOT							
I-092811	Smoke Alarms for Dist Office	R	10/06/2011	167.96		010099		
I-092911	Smoke Alarms for Dist Ofc	R	10/06/2011	251.94		010099		419.90
00127	INDUSTRIAL BOLT & SUPPLY							
I-00122249	Parts to Cable Camp F Oak Tree	R	10/06/2011	62.62		010100		
I-00122451	Washer for Fortress Pump Can	R	10/06/2011	7.72		010100		70.34
00131	JCI JONES CHEMICALS, INC							
I-525019	Chlorine for TP, CM#525054	R	10/06/2011	1,587.60		010101		1,587.60
01284	JOHN PENCE BUILDING							
I-601111	Door for Dam Hoist House	R	10/06/2011	1,089.00		010102		1,089.00
01022	KELLY CLEANING & SUPPLIES, INC							
I-708482179	Janitorial Srvcs LCRA Offices	R	10/06/2011	300.00		010103		300.00
00533	Lifeline Medical Transport							
I-080411	DOS 8/4/11 Claim#11-95564	R	10/06/2011	686.28		010104		686.28
00151	MEINERS OAKS ACE HARDWARE							
I-454619	Blast Sand at Robles, Pipeline	R	10/06/2011	67.49		010105		
I-455341	Tarp, Spray Paint for Dist Mnt	R	10/06/2011	15.50		010105		
I-455812	Parts for Fisheries	R	10/06/2011	44.70		010105		
I-455947	Paint Supplies for Camp H RR	R	10/06/2011	169.05		010105		
I-456271	Parts for Fisheries	R	10/06/2011	31.13		010105		
I-456293	Supplies for Waterpark	R	10/06/2011	124.66		010105		
I-456320	Utility Knives for TP	R	10/06/2011	12.05		010105		
I-456362	Paint Supplies for LCRA	R	10/06/2011	53.87		010105		

VENDOR SET: 01 Casitas Municipal Water D

BANK: AP ACCOUNTS PAYABLE

DATE RANGE: 9/30/2011 THRU 10/06/2011

VENDOR I.D.	NAME	STATUS	CHECK DATE	INVOICE AMOUNT	DISCOUNT	CHECK NO	CHECK STATUS	CHECK AMOUNT
I-456405	Parts for Fisheries	R	10/06/2011	9.49		010105		
I-456436	GFCI & Plate Covers, Lab	R	10/06/2011	34.87		010105		
I-456501	Supplies for O & M Cust Svc	R	10/06/2011	34.45		010105		
I-456502	Shovel for O & M Cust Svc	R	10/06/2011	21.46		010105		
I-456578	Programming Key for LCRA Maint	R	10/06/2011	2.23		010105		
I-456773	Hand Held Sprayer, Maint	R	10/06/2011	9.06		010105		
I-456784	Molding for Camp H Restroom	R	10/06/2011	54.09		010105		
I-456785	Wood Glue for LCRA Maint	R	10/06/2011	7.28		010105		
I-456793	Wasp Repellant for Pipeline	R	10/06/2011	4.87		010105		
I-456809	Painting Supplies for Dist Mnt	R	10/06/2011	119.61		010105		
I-456955	Masking Tape for Telemetry	R	10/06/2011	5.57		010105		
I-456996	Concrete Mix for Canal	R	10/06/2011	7.49		010105		
I-457012	Screws for H Camp Restroom	R	10/06/2011	4.49		010105		
I-457342	Tarp, Motor Oil for Waterpark	R	10/06/2011	62.93		010105		
I-457488	Painting Supplies for Ave 1 PP	R	10/06/2011	89.83		010105		
I-457545	Caulk Gun, Caulking, Gloves	R	10/06/2011	36.01		010105		
	For LCRA Maint							
I-457660	Electrical Parts, Pump Plant	R	10/06/2011	36.27		010105		
I-457679	Batteries, Connectors for PP	R	10/06/2011	24.17		010105		
I-457751	Paint and Brush for Pipeline	R	10/06/2011	13.02		010105		
I-457902	Supplies to Install Window	R	10/06/2011	46.03		010105		
	in Reservation Office							
I-457919	Cable Ties, Ziplocs for Fish	R	10/06/2011	25.13		010105		
I-458154	Insect Repellant for Pipeline	R	10/06/2011	5.46		010105		
I-458454	Bolts & Screws for Engineering	R	10/06/2011	0.89		010105		
I-458544	Caulk for E & M	R	10/06/2011	12.42		010105		
I-458652	Duct Tape, Bushing, Fairview PP	R	10/06/2011	9.58		010105		1,195.15
02284	Harry Michaels							
I-092211	Ordinance Violation Fee Refund	R	10/06/2011	50.00		010109		50.00
01673	MICRO SPECIALIST							
I-09221110	Bulb for Microscope, Lab	R	10/06/2011	44.20		010110		44.20
00144	BOB MONNIER							
I-Aug 11	Reimburse Mileage 8/11	R	10/06/2011	53.72		010111		53.72
00158	NEWARK ELECTRONICS							
I-21173042	Labeler Battery Pack, Labels	R	10/06/2011	214.05		010112		214.05
00834	NEXTEL COMMUNICATIONS							
I-425958314119	LCRA Monthly Cell Phone Chrgs	R	10/06/2011	944.39		010113		944.39

VENDOR SET: 01 Casitas Municipal Water D

BANK: AP ACCOUNTS PAYABLE

DATE RANGE: 9/30/2011 THRU 10/06/2011

VENDOR I.D.	NAME	STATUS	CHECK DATE	INVOICE AMOUNT	DISCOUNT	CHECK NO	CHECK STATUS	CHECK AMOUNT
00163	OFFICE DEPOT I-580957921001 Office Supplies	R	10/06/2011	173.48		010114		173.48
01570	Ojai Auto Supply LLC I-219673 Bulbs for Dist Maint	R	10/06/2011	15.98		010115		
	I-220378 Fuses for Fuel Pump, Maint	R	10/06/2011	4.25		010115		20.23
00912	OJAI BUSINESS CENTER, INC I-7008 Shipping for Telemetry, Safety	R	10/06/2011	42.00		010116		42.00
09764	OJAI VALLEY EMERGENCY PHYS MED I-080411 DOS 8/4/11 Claim#11-95564	R	10/06/2011	163.71		010117		
	I-080511 DOS 8/5/11 Claim#11-95561	R	10/06/2011	87.21		010117		250.92
02285	Conrad Petermann I-092611 Irrigation Controller Rebate	R	10/06/2011	328.41		010118		328.41
00188	PETTY CASH I-100311 Replenish Petty Cash	R	10/06/2011	282.53		010119		282.53
02187	Pitney Bowes Inc I-314014 Maint Agreement Postage Mach	R	10/06/2011	301.00		010120		301.00
00988	PLUMBERS WAREHOUSE I-2874931 Urinal Gaskets for LCRA Maint	R	10/06/2011	16.09		010121		16.09
00619	PUMP CHECK I-4373 Water Meter Testing At Ave 1, Ave 2 and Treatment Plant	R	10/06/2011	1,500.00		010122		1,500.00
01037	SAF-T-FLO INDUSTRIES CORP. I-117681 PVC Injection Quill for TP	R	10/06/2011	431.81		010123		431.81
01992	Salinas Tree Service I-1855 Tree Service at Lake Casitas	R	10/06/2011	1,750.00		010124		
	Trim Oak Tree in Camp F, Remove Eucalyptus Tree A-9	R	10/06/2011	700.00		010124		
	I-1858 Remove Eucalyptus Tree, 4MPP	R	10/06/2011	700.00		010124		
	I-1859 Toe Drain Brush Removal, Dam	R	10/06/2011	4,000.00		010124		6,450.00
01107	SAWYER PETROLEUM I-S77520 Oil for Fairview PP #3	R	10/06/2011	215.68		010125		215.68
00213	SERVICEMASTER COMMERCIAL I-28387 Dist Ofc Janitorial Svcs, 10/11	R	10/06/2011	1,032.00		010126		1,032.00

VENDOR I.D.	NAME	STATUS	CHECK DATE	INVOICE AMOUNT	DISCOUNT	CHECK NO	CHECK STATUS	CHECK AMOUNT
00385	SKILLPATH SEMINARS							
I-10294941	Womens Conference, Admin	R	10/06/2011	149.00		010127		
I-10294942	Womens Conference, Admin	R	10/06/2011	149.00		010127		298.00
00215	SOUTHERN CALIFORNIA EDISON							
I-093011	Acct#2210502480	R	10/06/2011	108,777.42		010128		
I-093011A	Acct#2210505426	R	10/06/2011	2,612.10		010128		
I-093011B	Acct#2237789169	R	10/06/2011	22.72		010128		
I-100411	Acct#2269631768	R	10/06/2011	19.80		010128		111,432.04
02286	Gary Stever							
I-092611	Irrigation Controller Rebate	R	10/06/2011	350.00		010129		350.00
02018	Stoneriver Pharmacy Solutions							
I-080411	DOS 8/4/11 Claim#11-95564	R	10/06/2011	107.35		010130		
I-081111	DOS 8/11/11 Claim#11-95564	R	10/06/2011	22.88		010130		
I-082611	DOS 8/26/11 Claim#11-95564	R	10/06/2011	13.53		010130		143.76
01147	SUPERIOR GATE SYSTEMS							
I-2521	Replace Loop Detector, Canal	R	10/06/2011	225.00		010131		
I-2522	Replace Touch Pad On Olive St	R	10/06/2011	650.00		010131		
I-2528	Service Boat Storage Gate	R	10/06/2011	85.00		010131		960.00
01709	TYCO VALVES & CONTROLS							
I-193446900	Butterfly Valves for TP	R	10/06/2011	474.54		010132		474.54
01662	TYLER TECHNOLOGIES, INC.							
I-29536	Backflow Module Maint Agree	R	10/06/2011	1,641.15		010133		1,641.15
00243	VALLEY EQUIPMENT							
I-10514	Cutting Blades for Pipelines	R	10/06/2011	28.80		010134		28.80
00247	County of Ventura							
I-100311	Encroachment Permit	R	10/06/2011	210.00		010135		210.00
09775	VENTURA ORTHOPAEDIC & SPORTS							
I-060611	DOS 6/6/11 Claim#03-01792	R	10/06/2011	101.26		010136		
I-081211	DOS 8/12/11 Claim#11-95564	R	10/06/2011	187.68		010136		
I-082611	DOS 8/26/11 Claim#11-95564	R	10/06/2011	101.26		010136		390.20
00257	VENTURA RIVER COUNTY WATER							
I-093011	ACct#03-50100A	R	10/06/2011	26.57		010137		
I-093011A	ACct#05-37500A	R	10/06/2011	67.01		010137		93.58

VENDOR I.D.	NAME	STATUS	CHECK DATE	INVOICE AMOUNT	DISCOUNT	CHECK NO	CHECK STATUS	CHECK AMOUNT
09780 I-P54956	VERMEER PACIFIC Fiberglass Hood for Chipper	R	10/06/2011	1,907.86		010138		1,907.86
00330 I-7134142	WHITE CAP INDUSTRIES Kleenblast for Fortress PP	R	10/06/2011	28.23		010139		28.23
00274 I-Aug 11 I-Sep 11	JAMES WORD Reimburse Mileage 8/11 Reimburse Mileage 9/11	R R	10/06/2011 10/06/2011	39.96 107.67		010140 010140		147.63
00511 I-0811111A	Community Memorial Hospital DOS 8/11/11 Claim#11-95564	R	10/06/2011	13.81		010141		13.81
00124 I-CUI201110040474 I-DCI201110040474 I-DI%201110040474	ICMA RETIREMENT TRUST - 457 457 CATCH UP DEFERRED COMP FLAT DEFERRED COMP PERCENT	R R R	10/06/2011 10/06/2011 10/06/2011	423.08 2,203.86 171.06		010142 010142 010142		2,798.00
01960 I-MOR201110040474	Moringa Community PAYROLL CONTRIBUTIONS	R	10/06/2011	16.75		010143		16.75
00985 I-CUN201110040474 I-DCN201110040474	NATIONWIDE RETIREMENT SOLUTION 457 CATCH UP DEFERRED COMP FLAT	R R	10/06/2011 10/06/2011	211.54 3,981.78		010144 010144		4,193.32
00180 I-UND201110040474	S.E.I.U. - LOCAL 721 UNION DUES	R	10/06/2011	627.75		010145		627.75
00230 I-UWY201110040474	UNITED WAY PAYROLL CONTRIBUTIONS	R	10/06/2011	45.00		010146		45.00
00489 I-Aug 11 I-Sep 11	STEVE WICKSTRUM Reimburse Mileage 8/11 Reimburse Mileage 9/11	R R	10/06/2011 10/06/2011	31.08 200.36		010147 010147		231.44
00128 I-T1 201110040474 I-T3 201110040474 I-T4 201110040474	INTERNAL REVENUE SERVICE Federal Withholding FICA Withholding Medicare Withholding	D D D	10/06/2011 10/06/2011 10/06/2011	20,700.59 16,860.28 5,076.94		100611 100611 100611		42,637.81
00049 I-T2 201110040474	STATE OF CALIFORNIA State Withholding	D	10/06/2011	6,858.28		100612		6,858.28

VENDOR I.D.	NAME	STATUS	CHECK DATE	INVOICE AMOUNT	DISCOUNT	CHECK NO	CHECK STATUS	CHECK AMOUNT
00187	CALPERS							
	I-PER201110040474	D	10/06/2011	9,943.20		100613		
	I-PRR201110040474	D	10/06/2011	12,020.48		100613		21,963.68

* * T O T A L S * *

	NO	INVOICE AMOUNT	DISCOUNTS	CHECK AMOUNT
REGULAR CHECKS:	99	416,210.87	0.00	416,210.87
HAND CHECKS:	0	0.00	0.00	0.00
DRAFTS:	3	71,459.77	0.00	71,459.77
EFT:	0	0.00	0.00	0.00
NON CHECKS:	0	0.00	0.00	0.00
VOID CHECKS:	0	VOID DEBITS 0.00		
		VOID CREDITS 0.00	0.00	0.00

TOTAL ERRORS: 0

VENDOR SET: 01	BANK: AP	TOTALS:	102	487,670.64	0.00	487,670.64
BANK: AP	TOTALS:		102	487,670.64	0.00	487,670.64
REPORT TOTALS:			102	487,670.64	0.00	487,670.64

**Casitas Municipal Water District
 Reimbursement Disclosure Report (1)
 Fiscal Year 2011/12
 July 1, 2011-September 30, 2011**

Board of Director/				
<u>Date paid</u>	<u>Employee</u>	<u>Description</u>	<u>Amount Paid</u>	
7/7/11	Luke Soholt	T2 Exam and Certification	\$	125.00
7/13/11	Scott Lewis	Airfare to CMWD 6/20-6/28	\$	264.50
7/13/11	Scott Lewis	Personal Vehicle Miles to Newport (Round	\$	198.90
7/13/11	Scott Lewis	Lodging in Newport, OR 6/6-6/9	\$	281.76
7/13/11	Scott Lewis	DNA Lab Supplies	\$	650.67
7/13/11	Scott Lewis	Lodging at CMWD 6/20-6/28	\$	381.20
7/13/11	Scott Lewis	Car Rental at CMWD 6/20-6/28	\$	482.62
7/21/11	Pete Kaiser	Lodging in D.C. 7/11-7/13	\$	801.50
8/24/11	Curtis Orozco	Safety Boot Purchase	\$	115.00
8/31/11	Ron Yost	Possessory Tax (Dam Tender House)	\$	521.68
9/8/11	Mike Shields	Safety Boot Purchase	\$	113.53
9/8/11	Ron Yost	Safety Boot Purchase	\$	115.00
9/15/11	Scott Lewis	Airfare to CMWD 8/20-8/26	\$	401.80
9/15/11	Scott Lewis	Lodging at CMWD 8/20-8/26	\$	529.57
9/15/11	Scott Lewis	Car Rental at CMWD 8/20-8/26	\$	262.60
9/15/11	Tracy Medeiros	D2, D3 Review Class	\$	257.25
9/23/11	Tracy Medeiros	Water Distribution System Class	\$	113.04
9/23/11	Jim Weber	Safety Boot Purchase	\$	115.00

Note:

1) Reimbursement Disclosure Report prepared pursuant to California Government Code 53065.5

CASITAS MUNICIPAL WATER DISTRICT
Inter-Office Memorandum

DATE: October 6, 2011
TO: Board of Directors
FROM: General Manager, Steve Wickstrum
Re: Recreation Committee Meeting of October 3, 2011

RECOMMENDATION:

It is recommended that the Board of Directors receive and file this report.

BACKGROUND AND OVERVIEW:

1. **Roll Call.** Directors Kaiser and Hicks
Staff – PSM Carol Belser
Public – Gary Wolfe ,
2. **Public comments.**
None.
3. **Board/Management comments.**
Director Kaiser commented on the excellent job of staff on the recent cross-country event held at Lake Casitas.

PSM Carol Belser reported that the first weekend of bow fishing had no participation. It was noted that Ron Merckling has submitted a press release that may stimulate interest from the public.

4. **Review of the Power Machinery Club Cart Lease Agreement.**
PSM Belser presented the explanation of the lease program, the staged leases and current status of the leases. Director Hicks expressed concern that there appears to be some unfairness in the terms of the leases. PSM Belser stated that staff has worked with the owner of Power Machinery to improve the terms of the leases. There are no buy-outs on the leased carts.
5. **Department of Boating and Waterways Patrol Boat Grant.**
PSM Belser reported that staff would like to pursue another grant for a patrol boat. The objective of the grant is to obtain a smaller patrol boat and trailer for less than \$80,000. Such a boat was purchased by Monterey County Parks Department. Staff desires to seek the approval of the Board to move forward with the grant application. The purchase of the boat is planned to be a reimbursable account that is completed during the FY 2011-12 budget, noting that this item is not budgeted.
6. **Update on Bureau of reclamation Grant Funding.**
PSM Belser reported that bureau staff has been extremely helpful in acquiring funds for the Lake Casitas Recreation Area that will be matched by current budget dollars. So far, it appears that approximately \$202,000 will be transferred to Casitas for

recreation improvement projects. The committee expressed great appreciation to the efforts of the Bureau of Reclamation to assist Casitas.

7. **Review and discuss LCRA Front Gate Area Improvements.**

The Committee reviewed preliminary sketches of changes to the LCRA front gate. The plans change the traffic routes through the gates, provide signaling and access control at each gate, and provide a walk-in pathway. Staff will continue to refine the sketch to a set of plans that can be implemented this year. This is one of many projects that will be assisted by Bureau funding.

8. **Review and Discuss LCRA User Fees.**

PSO IV Doan presented his review of user fees and recommended several small incremental changes to annual boat fees. The proposal is to increase both the annual kayak and boat fee by \$5.00. The recommendation will be prepared and brought to the Board for consideration and approval.

9. **Cancellation of the Chili Cook-off.**

PSM Belser announced to the Committee that staff has recently been informed by Ojai Rotary that they will not be holding the Chili Cook-off. It appears that financial loss during last year's event was the reason. Staff is to review the terms of the five-year contract and consider cancellation of the contract.

10. **Issues regarding the Home Brewers event.**

PSM Belser stated that there is a disagreement between the Home Brewers and the Alcoholic Beverage Control regarding the requirement of a ABC license for the Home Brewers event. The ABC is the enforcing agency. The Home Brewers have been informed that they must comply with ABC or Casitas will not permit the event. The requirement to comply with all federal, state and local laws and regulations is a condition stipulated in the five-year contract between Casitas and the Home Brewers. The Committee will be kept informed of any developments in this regard.

11. **Update on the sunken vessel.**

Staff has received notice of possible assistance from the US Navy to use side-scan sonar to locate the vessel. The Committee and Board will be apprised of any updates on this matter.

12. **Discussion regarding insurance requirements.**

The General Manager suggests that staff investigate further whether to require boat owners to have liability insurance in order to operate on Lake Casitas. This suggestion is made in consideration of a recent boating accident and the recent boat sinking that occurred on Lake Casitas. Staff will survey requirements on other lakes of California and discuss this proposal with local insurance agents and legal counsel. The Committee was supportive of the investigation.

13. **Update on Concessionaire Agreements.**

PSM Belser has prepared initial draft agreements for the review by the General Manager. The Committee discussed various reasons for short and long term agreements, which may be different for the different concessions and may need to coincide with the twenty-five year term of the Bureau-Casitas recreation agreement.

Mr. Wolfe commented that he interprets the current contract for the Park Store to be

entirely under his Bait and Tackle concession agreement, and that would provide a “first-right-of-refusal” to the Park Store’s future contract selection process. Mr. Wolfe noted that he had been asked this question by the current sub-concessionaire. The General Manager stated that the intent in re-opening the park store was not to continue the “first-right-of-refusal”, as that concluded with the original park store contract. A document review will follow and an answer provided at the time of finalizing the craft concession agreements and request for proposal.

14. **Review of Incidents and Comments.**
There were no major incidents to report.

CASITAS MUNICIPAL WATER DISTRICT
Inter-Office Memorandum

DATE: October 4, 2011
TO: Board of Directors
FROM: General Manager, Steve Wickstrum

Re: Executive Committee Meeting of October 4, 2011

RECOMMENDATION:

It is recommended that the Board of Directors receive and file this report.

MEETING:

1. Roll Call. Director Kaiser, Director Baggerly
2. Public Comments. None.
3. Board/Manager comments.
The General Manager reported that staff has obtained 2010 census numbers and district director boundary maps. Staff is independently reviewing the population balances between director boundaries and will bring recommended changes to the Board. It is anticipated that all changes will be accomplished before the County begins to develop the voting rolls. Staff is developing a timeline in which to accomplish the changes to the director division boundaries.
4. Membership in Southern California Water Committee in the amount of \$850.
The Committee reviewed the invitation to join the Southern California Water Committee. The Committee questioned the need to extend the district's lobbying beyond current memberships in ACWA, CSDA and AWA. The Committee does not support the additional membership in the Southern California Water Committee and recommended that this item be considered by the Board of Directors.
5. Information from U.S. Business Executive.
The District has received a solicitation from US Business Executive, a quarterly magazine, to print a case study on the Casitas Municipal Water District. The telephone solicitor stated that there would be no charge to the District and there would be copies of the story provided to the District. While this sounds good, the General Manager is concerned by the statement in the letter which reads "Please understand that this is an invitation and that you should only participate if you view this as commercially beneficial to your company." This article will require time from Casitas staff and does not appear to be commercially beneficial to the District. The General Manager will inform US Business Executive that the District will decline the invitation.

CASITAS MUNICIPAL WATER DISTRICT
Interdepartmental Memo

DATE: October 5, 2011

TO: Steve Wickstrum, General Manager

COPY: Carol Belser, Park Services Manager

FROM: Suzi Taylor, Park Services Officer

SUBJECT: **Grant from California Department of Boating & Waterways for a New Equipped Patrol Boat & Trailer for Lake Casitas Recreation Area**

RECOMMENDATION

It is recommended that the Board of Directors authorize the execution of the Standard Agreement from the California Department of Boating & Waterways with respect to a grant in the amount of \$80,000.00 to purchase a new equipped heavy aluminum patrol boat and trailer. The existing 1996 Pacific Angler will be used as a back up patrol boat and by the maintenance crew.

BACKGROUND AND OVERVIEW

The 1996 Pacific Angler patrol boat has been in service for over 15 years. The California Department of Boating and Waterways has awarded Casitas Municipal Water District a grant in the amount of \$80,000.00 to purchase a new fully equipped 20' – 22' heavy aluminum boat, similar to the Pacific Angler and trailer. Staff identified a similar boat recently delivered to Monterey County Parks Department purchased with the same grant funding source. See attached photo. The cost including trailer was approximately \$76,000. The new boat will be used in addition to the Cortez, the vessel we purchased with the same grant funding source in 2009, to patrol the lake to maintain the level of service currently afforded to the public, educate and assist boaters in safe boating practices, ordinance enforcement and help maintain the water quality of the lake.

On Monday October 3, 2011 the Recreation Committee reviewed and supported the grant acceptance to forward to the Board. If approved, the grant will allow the Recreation Area to purchase the new boat with minimal financial impact.



2011 Monterey County Parks patrol vessel
funded by CA Boating and Waterways grant

CASITAS MUNICIPAL WATER DISTRICT

**RESOLUTION APPROVING A GRANT FROM THE
CALIFORNIA DEPARTMENT OF BOATING AND WATERWAYS
FOR A NEW PATROL BOAT & TRAILER
AT LAKE CASITAS RECREATION AREA**

WHEREAS, the California Department of Boating and Waterways has agreed to provide a grant in the amount of eighty thousand dollars (\$80,000) to the Casitas Municipal Water District for the purchase of a new patrol boat and trailer; and

WHEREAS, the Board of Directors of the Casitas Municipal Water District desires to accept the grant funds for the purpose of purchasing a new patrol boat and trailer for the Lake Casitas Recreation Area.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Casitas Municipal Water District authorize and direct the General Manager, Steven E. Wickstrum, to execute, in the name of Casitas Municipal Water District, an agreement with the Department of Boating and Waterways for a grant in the amount of \$80,000 to purchase a new patrol boat and trailer for the Lake Casitas Recreation Area. Further, that the General Manager be empowered to execute contracts, agreements, amendments and requests for payment for the purpose of securing grant funds and to implement and carry out the purposes specified in the grant application and agreement.

ADOPTED this 12th day of October, 2011.

Pete Kaiser, President
Casitas Municipal Water District

ATTEST:

James Word, Secretary
Casitas Municipal Water District

CASITAS MUNICIPAL WATER DISTRICT
Interdepartmental Memo

DATE: October 6, 2011

TO: General Manager, Steve Wickstrum

FROM: Park Services Manager, Carol Belser

SUBJECT: **Trout Purchase for 2011/2012**

RECOMMENDATION:

Staff recommends that the Board of Directors approve the purchase of live rainbow trout for a total amount of \$29,997.15 from Chaulk Mound Trout Ranch in Nebraska.

BACKGROUND:

The purchase of live rainbow trout, required to be supplied by distributors approved by the California Department of Fish and Game (DFG), was authorized by Dr. Dwayne Maxwell, a DFG representative. Bids were solicited from eight suppliers located in California, Oregon and Nebraska. The total bid was for \$30,000 made up as follows:

(a) Live rainbow trout between 3/4 to one (3/4 to 1) pounds per fish, the total cost of which was not to exceed twenty two thousand dollars (\$22,000), and

(b) Live rainbow trout between two and twelve (2-12) pounds per fish, four (4) fish over ten (10) pounds and two (2) fish over twelve(12) pounds, the total cost of which was not to exceed eight thousand dollars (\$8,000).

Six (6) of the suppliers solicited did not submit a bid. Two (2) bids were received. Mt. Lassen Trout Farm bid for 8,000 pounds of fish for \$29, 920 for both sizes of trout and Chaulk Mound Trout Ranch bid 8,478 pounds of fish for \$29, 997.15 for both sizes of fish.

While Mt. Lassen Trout Farm bid a lower cost per pound on the smaller trout, Chaulk Mound Trout Ranch will supply over 400 additional pounds of fish over the Mt. Lassen Trout Farm bid even with adding an additional \$80.00 to the purchase price since Mt. Lassen's bid was for a total of \$29,920.

The introduction of additional trout will enhance the recreational fishing experience and increase the possibility that new a record trout will be caught at Lake Casitas, one even larger than the trout caught in December 2010 that weighed in at 11 pounds 13 ounces. The record fish was stocked from Chaulk Mound Trout Ranch.

CASITAS MUNICIPAL WATER DISTRICT

BIDDING SHEET

INFORMAL BID FOR PURCHASE & DELIVERY OF
LIVE RAINBOW TROUT TO
LAKE CASITAS RECREATION AREA

Schedule of prices for purchase and delivery of live rainbow trout to the Lake Casitas Recreation Area, 11311 Santa Ana Road, Ventura, California 93001 in accordance with these specifications. Any item not specifically mentioned shall be considered incidental to the item to which it pertains. The bidder shall list prices for all bid items. Bids received which do not list prices in succession shall be rejected.

Bid Item #	# of Pounds & Unit Price Per Pound	Description & Price in Words	Amount \$
1	6317	The unit price per pound of live rainbow trout between three quarter to one (3/4-1) pounds per fish, the total cost of which not to exceed twenty two thousand dollars (\$22,000) <u>most fish will be 1 lb. + up</u>	\$22,109.50
2	2161	The unit price per pound of live rainbow trout between two and twelve (2-12) pounds per fish, Four (4) fish over ten (10) pounds each and two (2) fish over twelve (12) pounds each to be delivered in the November or December stocking. The total cost of which not exceed eight thousand dollars (\$8,000). <u>most fish will be 3-6 lbs.</u>	\$7,887.65

TOTAL BID AMOUNT (Items 1 & 2) \$29,997.15 *

Strain of rainbow trout to be provided Kamloop triploid

Bidder will not be released on account of errors. When a discrepancy occurs between the written price and the number listed, the written price shall govern. The Bidder understands that the Casitas reserves the right to reject any or all bids, and to waive any formalities in the bidding.

Date: 10-3-2011 BIDDER: Ron Bright dba Chaulik Mound Trout Ranch

By: Ron Bright
 Title: owner
 Aquaculture License No License: NEBR #14
 Date License Expires: 12-31-2011
 Tel. No.: 308-262-2973 Fax No.: 308-262-0993
 Cell No: 308-279-1543
 Address: 2211 Road 73, Bridgeport, NE 69336
 E-Mail Address: cmtroutranch@gmail.com

- Attachments:
 Exhibit A - Specifications
 Exhibit B - Insurance Requirements
 W-9 - Request for Taxpayer ID Number & Certification
 G:\WPDOCS\FishBids&Corres\FishBids-2011\BidProposal10-06-2011.doc

* Does not include DF+G required Importation Permit. These Permits are the responsibility of the lake owner.

CASITAS MUNICIPAL WATER DISTRICT

BIDDING SHEET

INFORMAL BID FOR PURCHASE & DELIVERY OF
LIVE RAINBOW TROUT TO
LAKE CASITAS RECREATION AREA

Schedule of prices for purchase and delivery of live rainbow trout to the Lake Casitas Recreation Area, 11311 Santa Ana Road, Ventura, California 93001 in accordance with these specifications. Any item not specifically mentioned shall be considered incidental to the item to which it pertains. The bidder shall list prices for all bid items. Bids received which do not list prices in succession shall be rejected.

Bid Item #	# of Pounds & Unit Price Per Pound	Description & Price in Words	Amount \$
1	6,500 ^{lbs} # 3.3846 / LB	The unit price per pound of live rainbow trout between three quarter to one (3/4-1) pounds per fish, the total cost of which not to exceed twenty two thousand dollars (\$22,000)	\$ 22,000 ⁰⁰
2	1,500 ^{lbs} # 5.28 / LB	The unit price per pound of live rainbow trout between two and twelve (2-12) pounds per fish, Four (4) fish over ten (10) pounds each and two (2) fish over twelve (12) pounds each to be delivered in the November or December stocking. The total cost of which not exceed eight thousand dollars (\$8,000).	\$ 7920 ⁰⁰
TOTAL BID AMOUNT (Items 1 & 2)			\$ 29,920 ⁰⁰

Strain of rainbow trout to be provided Trout Lodge & Hildebrand

Bidder will not be released on account of errors. When a discrepancy occurs between the written price and the number listed, the written price shall govern. The Bidder understands that the Casitas reserves the right to reject any or all bids, and to waive any formalities in the bidding.

Date: 10/2/11 BIDDER: Daniel P. Brown

By: Daniel P. Brown
 Title: Operations Mgr
 Aquaculture License No License: 216
 Date License Expires: 12/31/12
 Tel. No.: 530-474-1900 Fax No.: 530-474-1904
 Cell No: _____
 Address: 20560 LANGS VALLEY RD.
RAYNES CREEK, CA 96075
 E-Mail Address: dpbrown@troutlodge.net

Attachments:
 Exhibit A - Specifications
 Exhibit B - Insurance Requirements
 W-9 - Request for Taxpayer ID Number & Certification
 G:\WPDOCS\FishBids&Corres\FishBids-2011\BidProposal10-06-2011.doc

CASITAS MUNICIPAL WATER DISTRICT
Inter-Office Memorandum

DATE: October 6, 2011
TO: Steve Wickstrum, General Manager
FROM: Brent Doan, Park Services Officer
COPY: Carol Belser, Park Services Manager
SUBJECT: Proposed Fee Adjustments for the Lake Casitas Recreation Area

RECOMMENDATION:

It is recommended that the Board of Directors receive this report and schedule a public hearing for the proposed recreation fee structure.

BACKGROUND AND OVERVIEW:

Approximately once a year a fee survey is conducted with other recreation areas in the region to determine the suitability of Lake Casitas Recreation Area (LCRA) fees. Fees provide for quality levels of services for the visiting public while protecting the water supply and preventing the introduction of invasive species. Ultimately, the goal is for LCRA to be financially self-sufficient. The survey indicates most LCRA fees are higher than those surveyed.

The last fee increase was in September of 2008, was some of the most dramatic increases seen and a method of funding the boating restrictions with the tamper-proof cabling and tag system. A study was recently conducted on the overall boating costs and revenue derived from the boating program at LCRA. Boating is viewed as a supporting activity of the overall recreation experience offered and not as necessarily a profit center itself. The study indicated of \$182,584 in costs associated with boating, there was corresponding revenue associated with boating of \$173,498, resulting in a deficit of \$9,086 in the program. In order to bridge this gap, minor increases in some boating fees were taken to the Recreation Committee on October 3, 2011 for discussion and a recommendation for some increases was approved for Board consideration. It was recommended the day use and overnight kayak fees not be adjusted as the small number of users of that fee in the past now purchase annual decals due to the boating restrictions.

<u>Fee</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Revenue Increase</u>
Daily Boat Permit	\$10	\$13	\$4,332
Annual Boat Permit	\$125	\$130	\$2,450
Annual Kayak	\$30	\$35	\$ 500
Overnight Boat Permit	\$7.50	\$10	\$ 720
Inspection/Reinspection Fee	\$15	\$20	\$2,250
TOTAL FROM INCREASES			\$10,252

SUMMARY:

The study of the boating program and fee survey of other recreation areas indicates a modest increase in some boating related fees is justified to help close the gap between boating expenses and revenue. It is requested that the proposed fee adjustments be considered and adopted.

CASITAS MUNICIPAL WATER DISTRICT

RESOLUTION SETTING THE TIME AND PLACE OF A PUBLIC
HEARING FOR INPUT REGARDING THE CHANGES IN FEES FOR THE
LAKE CASITAS RECREATION AREA

WHEREAS, Casitas is interested in public comments regarding the proposed changes in fees for the Lake Casitas Recreation Area;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Casitas Municipal Water District as follows:

1. A public hearing will be conducted for the purpose of hearing all interested parties regarding the changes in fees for Lake Casitas Recreation Area.
2. The place of said hearing is hereby fixed at Casitas' Office, 1055 Ventura Avenue, in the town of Oak View. The date and time for said hearing is hereby fixed as October 26, 2011, at 3:00 p.m.
3. The Secretary of Casitas is hereby directed to give notice of said hearing by publishing a notice of the time and place of the hearing in the local newspapers.

ADOPTED this 12th day of October, 2011.

Pete Kaiser, President
Casitas Municipal Water District

ATTEST:

James Word, Secretary
Casitas Municipal Water District

**CASITAS MUNICIPAL WATER DISTRICT
INTEROFFICE MEMORANDUM**

TO: STEVE WICKSTRUM, GENERAL MANAGER
FROM: NEIL COLE, CIVIL ENGINEER
SUBJECT: AWARD CONTRACT -UPPER OJAI PUMP PLANT ELECTRICAL UPGRADES, SPECIFICATION 10-347
DATE: OCTOBER 6, 2011

RECOMMENDATION:

It is recommended that the Board of Directors adopt the resolution accepting the proposal submitted by the lowest responsible bidder and award the contract for the construction of the Upper Ojai Pump Plant Electrical Upgrades, Specification 10-347 to Oilfield Electric Company in the amount of \$140,650. It is further recommended that the President of the Board execute the agreement for said work and the Board authorize staff to proceed with the administration of the contract.

BACKGROUND AND DISCUSSION:

The Upper Ojai Pump Station is in need of electrical upgrades to improve the efficiency of the facility and bring the facility into current code compliance. This project will install the previously purchased motor control centers, install the Southern California Edison required facilities, and connect the new motor control centers to the existing pumps. Additional work will be completed by Southern California Edison crews to replace the existing transformer.

The project was advertised through F.W. Dodge and on the District's web site. Three bidders completed the non mandatory job walk. Three firms submitted proposals. The bid results are

FIRM	AMOUNT
Oilfield Electric Company	\$140,650
Coleman-Pacific Inc	\$149,000
Taft Electric Company	\$168,500

The FY 2011-12 Budget allocated \$170,000 for the completion of this project.

CASITAS MUNICIPAL WATER DISTRICT

**RESOLUTION AWARDING A CONTRACT
FOR THE UPPER OJAI PUMP PLANT ELECTRICAL UPGRADES, SPECIFICATION 10-347
SPECIFICATION 11-347**

WHEREAS, the District invited bids from qualified contractors for the above-referenced project, and

WHEREAS, the District received three bids, with the lowest responsive bid submitted by Oilfield Electric Company in the sum of \$140,650.00 and

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Casitas Municipal Water District as follows:

1. That the bid from Oilfield Electric Company in the amount of \$140,650.00 be accepted for the Upper Ojai pump Plant Electrical Upgrades, Specification 10-347 and a contract awarded.
2. That staff is hereby authorized and directed to proceed with the administration of the contract.

ADOPTED this 12th day of October, 2011.

Pete Kaiser, President
Casitas Municipal Water District

ATTEST:

James Word, Secretary
Casitas Municipal Water District

INTEROFFICE MEMORANDUM

TO: STEVE WICKSTRUM
FROM: SUSAN MCMAHON
SUBJECT: 2011 WATERSHED SANITARY SURVEY
DATE: 10/07/2011

The 2011 Watershed Sanitary Survey update has been completed. The Surface Water Treatment Rule requires that all systems that are subject to the rule shall conduct a sanitary survey of their watersheds at least once every five years. The purpose of a watershed sanitary survey is to identify actual or potential sources of contamination in the watershed, and any other watershed-related factors which are capable of producing adverse effect on the quality of water used for domestic drinking water purposes. Changes that have occurred since the last Watershed Sanitary Survey Update include the following:

- The United States Bureau of Reclamation completed a Final Environmental Impact Statement for the Resource Management Plan of the Lake Casitas Recreation Area.
- Casitas Municipal Water District developed and implemented the Invasive Species Ordinance; a resolution limiting access to Lake Casitas in order to control invasive species.
- The United States Forest Service revised its Land Management Plan for the Los Padres National Forest.
- During 2009 Casitas Municipal Water District received Water Permit Amendment No: 5610024-PA-002 from California Department of Public Health for the addition of orthophosphate/polyphosphate as a treatment chemical for corrosion control.
- During 2006 CMWD submitted a grandfathered *Cryptosporidium* data package to California Department of Public Health, and a letter of acceptance was sent during January of 2007. CMWD qualified for the lowest risk category (Bin 1), therefore no additional treatment processes are required.
- CMWD completed the required year of bi-monthly IDSE monitoring and submitted the report to CADPH during 2008. A letter of approval from CADPH was received by CMWD during 2009.

The conclusions from this 2011 update have been summarized as follows:

- The Lake Casitas water supply has not been adversely affected by activities or conditions on the watershed within the last five years.
- The Casitas Municipal Water District water supply continues to meet the current State and Federal Drinking Water Standards.
- There are many protections on the water shed through Casitas Municipal Water District ordinances, as well as federal, state and county policies, plans and regulations.

The recommendations from this 2011 update have been summarized as follows:

- Routinely check and analyze information from websites that provide information that is useful for watershed protection.
- Continue to participate in programs or processes that provide protection for the watershed.
- Remain informed of activities and changes in the watershed.

Please recommend that the board approve the document so it can be forwarded to Department of Public Health.



2011 WATERSHED SANITARY SURVEY UPDATE



Prepared by:
Susan McMahon/Water Quality Supervisor
June 29, 2011

www.casitaswater.org
1055 Ventura Avenue, Oak View, California 93022
Phone: (805) 649-2251 Fax: (805) 649-3001



TABLE OF CONTENTS

LIST OF TABLES AND FIGURES 4
LIST OF APPENDICES 4
LIST OF ACRONYMS USED..... 4
EXECUTIVE SUMMARY 6
INTRODUCTION 7
SECTION 1 2006 UPDATE 8
1.1 Summary of the 2006 Updated Watershed Sanitary Survey 8
1.2 Conclusions of the 2006 Watershed Sanitary Survey 8
1.3 Recommendations And Progress from the 2006 Watershed Sanitary Update..... 9
SECTION 2-DESCRIPTION OF CASITAS WATERSHED 11
2.1 Natural Setting 13
2.2 Climate 13
2.3 Source of Water 14
2.4 Hydrology 14
2.5 Land Use 15
Section 3-DESCRIPTION OF THE CMWD WATER SYSTEM 17
3.1 Description 17
3.2 Intake and Treatment Facilities 18
3.3 Distribution System..... 18
3.4 Improvements and Projects 18
SECTION 4-POTENTIAL SOURCES OF CONTAMINATION IN THE WATERSHED 20
4.1 Lake Casitas Recreation Area 20
4.2 Watershed Waste Disposal Systems 23
4.3 Agriculture, Pesticides and Herbicides 24
4.4 Animals 24
4.5 Mining and Logging..... 26
4.6 Erosion and Urban Runoff 26
4.7 Unauthorized Activities 27
4.8 Recreation Activities Outside the recreation area 27
4.9 Fire Hazards and Prevention 27
4.10 Traffic Accidents, Spills 27
4.11 Toxic Waste Sites..... 28
4.12 Hazardous Materials 28
4.13 Matilija Dam Removal Project 28
4.14 Anticipated Growth and Changes in Sources of Contamination 29
SECTION 5-WATERSHED CONTROL AND MANAGMENT PRACTICE 30
5.1 Casitas Policies and Procedures..... 30
5.2 County of Ventura 32
5.3 USEPA 36
5.4 CADPH 37
5.5 SRWQCB..... 38



5.6 USBR 39

5.7 USFS 40

SECTION 6-WATER QUALITY 42

6.1 Routine Inorganic Chemicals 42

6.2 Physical Quality 42

6.3 Nitrate and Nitrite 42

6.4 Radioactivity 42

6.5 Asbestos 43

6.6 Volatile Organic Chemicals 43

6.7 Synthetic ORganic Chemicals 43

6.8 UCMR 43

6.9 SWTR 43

6.10 IESWTR 45

6.11 LT2 ESWTR 45

6.12 Lead and Copper Rule 46

6.13 TCR 46

6.14 CCR 46

6.15 DBPs 47

6.16 Arsenic 48

6.17 Radon 49

6.18 Chromium VI 49

6.19 Perchlorate 49

6.20 Supplementary Watershed Sampling 49

SECTION 7-CONCLUSIONS AND RECOMMENDATIONS 51

7.1 Conclusions 51

7.2 Recommendations 52

References 53



TABLES AND FIGURES

FIGURE 1 WATERSHED BOUNDARY 12

Table 1 Casitas Reservoir Inventory Annual Summary 15

Table 2 Reservoirs Recoated or Cleaned Since 2006..... 19

Table 3 Monitoring Results for TTHMs and HAA5s..... 48

Table 4 Total Coliform and *E. coli* Monitoring Results From 2008-2010..... 50

LIST OF APPENDICES

CMWD Ordinance No. 10-01; An Ordinance of the Casitas Municipal Water District Establishing Rules and Regulations for the Public Use of the Lake Casitas Recreation Area

CMWD Resolution No. 08-08; Resolution of the Board of Directors of Casitas Municipal Water District Limiting Access to Lake Casitas in Order to Control Invasive Species

Lake Casitas Recreation Area Application for Filming

Resolution 77-8; A Resolution Clarifying the Position of the Board of Directors of Casitas Municipal Water District Concerning Use of Lands Acquired Under the Casitas Open Space Program

LIST OF ACRONYMS USED

- CADPH-California Department of Public Health
- CCR-Consumer Confidence Report
- CMWD-Casitas Municipal Water District
- CUPA-Certified Unified Planning Agency
- DBP-Disinfection By-Products
- D/DBPR-Disinfectant/Disinfection By-Product Rule
- DWSAP-Drinking Water Source Assessment Program
- EHD-Environmental Health Division
- EIS-Environmental Impact Statement
- ERP-Emergency Response Plan
- FOB-Field Operations Branch
- HAA5-Haloacetic Acids (5)
- IDSE-Initial Distribution System Evaluation
- IESWTR-Interim Enhanced Surface Water Treatment Rule
- LCRA-Lake Casitas Recreation Area
- LPNF-Los Padres National Forest
- LT2 ESWTR-Long Term 2 Enhanced Surface Water Treatment Rule



MCL-Maximum Contamination Level
mg/L-milligrams per liter
MRDL-Maximum Residual Disinfectant Level
NEPA-National Environmental Policy Act
NPDES-National Pollutant Discharge Elimination System
OEHHA-Office of Environmental Health Hazard Assessment
pCi/L-picoCuries per liter
PHG-Public Health Goal
RMP-Resource Management Plan
RWQCB-Regional Water Quality Control Board
SDWA-Safe Drinking Water Act
SOC-Synthetic Organic Compound
SWRCB-State Water Resources Control Board
SWTR-Surface Water Treatment Rule
TCR-Total Coliform Rule
TTHM-Total Trihalomethanes
UCMR-Unregulated Contaminants Monitoring Rule
ug/L-micrograms per liter
USBR-United States Bureau of Reclamation
USEPA-United States Environmental Protection Agency
USFS-United States Forest Service
VA-Vulnerability Assessment
VCFD-Ventura County Fire Department
VCWPD-Ventura County Watershed Protection District
VOC-Volatile Organic Compound



EXECUTIVE SUMMARY

There are numerous changes that have occurred since the last Watershed Sanitary Survey Update.

- The United States Bureau of Reclamation completed a Final Environmental Impact Statement for the Resource Management Plan of the Lake Casitas Recreation Area.
- Casitas Municipal Water District developed and implemented the Invasive Species Ordinance; a resolution limiting access to Lake Casitas in order to control invasive species.
- The United States Forest Service revised its Land Management Plan for the Los Padres National Forest.
- During 2009 Casitas Municipal Water District received Water Permit Amendment No: 5610024-PA-002 from California Department of Public Health for the addition of orthophosphate/polyphosphate as a treatment chemical for corrosion control.
- During 2006 CMWD submitted a grandfathered *Cryptosporidium* data package to California Department of Public Health, and a letter of acceptance was sent during January of 2007. CMWD qualified for the lowest risk category (Bin 1), therefore no additional treatment processes are required.
- CMWD completed the required year of bi-monthly IDSE monitoring and submitted the report to CADPH during 2008. A letter of approval from CADPH was received by CMWD during 2009.

The conclusions from this 2011 update have been summarized.

- The lake casitas water supply has not been adversely affected by activities or conditions on the watershed within the last five years.
- The Casitas Municipal Water District water supply continues to meet the current State and Federal Drinking Water Standards.
- There are many protections on the water shed through Casitas Municipal Water District ordinances, as well as federal, state and county policies, plans and regulations.

The recommendations from this 2011 update have been summarized.

- Routinely check and analyze information from websites that provide information that is useful for watershed protection.
- Continue to participate in programs or processes that provide protection for the watershed.
- Remain informed of activities and changes in the watershed.



INTRODUCTION

The Surface Water Treatment Rule (SWTR) requires that all systems that are subject to the SWTR shall conduct a sanitary survey of their watersheds at least once every five years. The purpose of a watershed sanitary survey is to identify actual or potential sources of contamination in the watershed, and any other watershed-related factors which are capable of producing adverse effect on the quality of water used for domestic drinking water purposes. The Casitas Municipal Water District (CMWD) presented the finding of the first sanitary survey in June 1994. The original CMWD Watershed Sanitary Survey reviewed the entire Lake Casitas watershed in great detail. The actual and potential contamination sources in the watershed were identified from literature searches and regulatory agency file sources. The field survey included all potential sources of contamination on the watershed. All private waste disposal systems were surveyed, as well as all livestock corrals, and a detailed report was written on each installation. The results of the investigation were tabulated and a determination was made of the effects on the drinking water quality. The results were documented in the June 1994 sanitary survey.

The California Department of Health Services has requested that updates of the survey be conducted every five years. An update was done in March 2001 along with another update in 2006. This 2011 update presents the Department with a summary of the 2006 update, a description of the Casitas Municipal Water District watershed and system, potential sources of contamination, control and management practices, water quality, and conclusions and recommendations. The 2011 update also includes field surveys, as well as an internet research of files provided by regulatory agencies.

Casitas Municipal Water District has prepared this document with consideration of changes that have occurred in the watershed since the last update, and of future requirements that protect and provide safe drinking water to customers.



SECTION 1- 2006 UPDATE

1.1 SUMMARY OF THE 2006 UPDATED WATERSHED SANITARY SURVEY

The main source of water for Casitas Municipal Water District (CMWD) is Lake Casitas. The water from Lake Casitas receives filtration and chloramination prior to distribution to the customers. CMWD has an emergency disinfection plan to alleviate any breakdown of the treatment process.

CMWD has provided finished water in compliance with all of the current regulations, except the copper tap sampling action level. The copper sampling results were elevated due to the corrosive nature of the finished water. After reviewing the available options it was decided that the addition of an orthophosphate/polyphosphate blend would be used on a trial basis for a corrosion control study, with the intent of selecting this method as a treatment process if acceptable corrosion control was achieved. The phase I study results indicate that the addition of phosphate/orthophosphate will reduce the copper levels in the distribution system to an acceptable level.

The regulations which have the greatest potential regulatory impact on CMWD are the Stage-2 Disinfection By-Product Rule and the Long Term-2 Enhanced Surface Water Treatment Rule. CMWD changed the disinfection method from chlorine to chloramines in order to meet the Stage-1 regulations during December of 2002. The monitoring results indicate that CMWD will be in compliance with the Stage 2 rule. The results of the Individual Distribution System Evaluation will assist in determining this.

CMWD has been monitoring for *Cryptosporidium* and *Giardia* since 2001. The results have revealed very infrequent detections, and when present the levels have been low. CMWD is optimistic that it will be assigned to a low risk category with minimal treatment processes required for *Cryptosporidium* log removal/inactivation.

1.2 CONCLUSIONS OF THE 2006 WATERSHED SANITARY SURVEY UPDATE

1. The Lake Casitas watershed is not impacted by public waste disposal systems or private waste disposal systems.
2. The Lake Casitas Recreation Area is operated and regulated in such a manner that it poses no threat to the quality of the water supply.
3. Areas on the watershed where there is grazing or penning of animals and livestock are monitored on a regular basis.
4. Mining, oil drilling and logging pose no threat to the safety of the water supply at this time.



5. Body contact sports are prohibited at Lake Casitas. Unregulated access (body contact) in the Ventura River has minimal impact on the safety of the water supply.
6. The limited access to the Casitas watershed by the US Forest Service effectively prevents illegal dumping of hazardous and solid waste in the watershed.
7. The Casitas water supply meets the current state and federal drinking water standards. In June 2004, CMWD started a corrosion control study using a 30% Ortho and 70% Poly Phosphate blend. The Phase 1 of the study is near completion, and the preliminary findings suggest an optimal phosphate dosage levels in the 1.0 – 1.5 mg/L range for effective corrosion control. CMWD is also in the design stage of a caustic soda addition facility for pH adjustment.
8. CMWD is meeting the Stage 1 D/DBPR and LT2ESWTR after changing from free chlorine to chloramines as the residual disinfectant in the distribution system.
9. The use of pesticides and herbicides on the Lake Casitas watershed is almost nonexistent, so there is minimal potential for pesticide or herbicide contamination.
10. CMWD should continue to move towards the protection of the watershed through the removal of homes by the United States Bureau of Reclamation.
11. CMWD has requested the introduction of legislation that would prohibit the transportation of hazardous waste materials on State Highway 150.
12. Construction projects on the watershed must be reviewed by the Ventura County Planning Department. Best management practices to prevent erosion are included as part of the permit process.

1.3 RECOMMENDATIONS AND PROGRESS FROM THE 2006 SANITARY SURVEY UPDATE

1. **Recommendation:** CMWD opposes mining leases in the watershed and should continue to request that the United States Forest Service keep mining leases out of Casitas Reservoir Watershed area, and notify CMWD if there is any interest in mining.

Progress: *CMWD opposes mining leases in the watershed and has continued to request that the United States Forest Service keep mining leases out of Casitas Reservoir Watershed area and notify CMWD if there is any interest in mining*

2. **Recommendation:** CMWD should continue the corrosion control study and move toward the implementation of permanent corrosion control facilities.

Progress: *CMWD completed the corrosion control study and has received the permit amendment. The permanent corrosion control facility is in the capital budget for 2011-2012.*



3. **Recommendation:** CMWD should continue to move towards the protection of the watershed through the removal of homes by the United States Bureau of Reclamation in coordination with the United States Forest Service.

Progress: CMWD has continued to protect the watershed through the removal of homes by the Bureau of Reclamation in coordination with the US Forest Service. One residence is left that is used by the US Forest Service.

4. **Recommendation:** CMWD will continue to solicit efforts to close Highway 150 to hazardous chemical and hazardous waste hauling.

Progress: CMWD has been unsuccessful in attempts to close Highway 150 to hazardous chemical and hazardous waste hauling. This has not been achieved, because of lack of legislative support.

5. **Recommendation:** CMWD will contact the County of Ventura regarding grading permits in the watershed and the implementation of best management practices for erosion prevention.

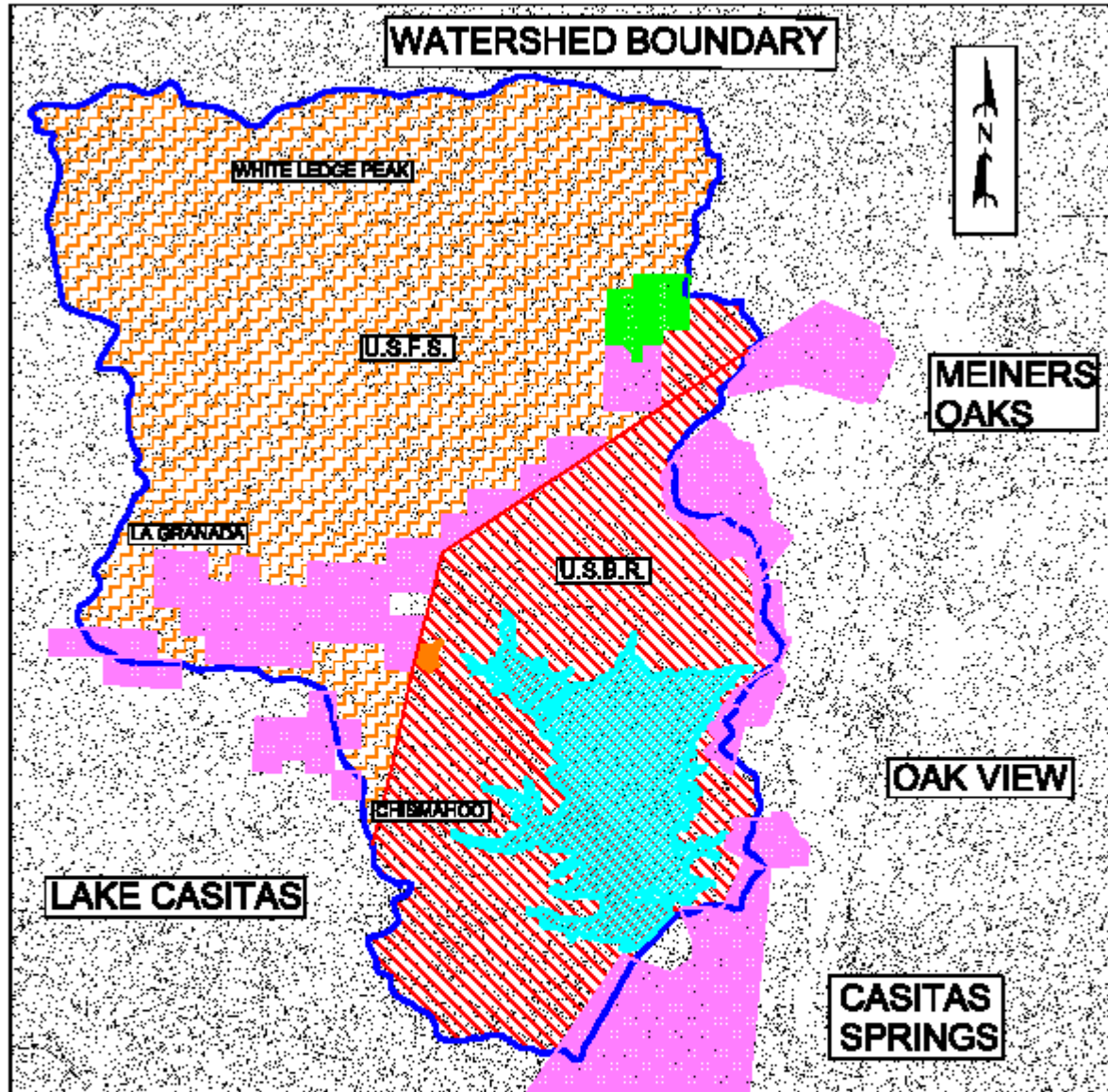
Progress: CMWD has contacted the County of Ventura regarding grading permits in the watershed. The Ventura County Public Works Department Engineering Services enforces best management practices for erosion prevention.



SECTION 2 –DESCRIPTION OF CASITAS WATERSHED

The CMWD Watershed Sanitary Survey covers the land and streams that drain into Lake Casitas. The watershed is 108 square miles of which 33 square miles discharge directly into the lake and 75 square miles drain into the Ventura River diversion facilities (See Watershed Boundary Figure 1).

Figure 1 Watershed Boundary



-  U.S.F.S
-  U.S.B.R.
-  U.S.F.S. - FIRE STATION
-  OJAI LAND CONSERV.
-  PRIVATE PARCEL LAND

0 1 mi
SCALE IN MILES



Natural Setting

Topography

The Ventura River portion of the watershed is characterized by rugged mountains in the upper basins transitioning to relatively flat valleys in the lower downstream areas. The areas to the east and west of the lake are particularly steep and are considered undevelopable. Most of the northwest portion of the watershed is located in the Los Padres National Forest. This land is very mountainous and covered by chaparral and sage brush.

Geology and Soils

The Ventura County Watershed Protection website also has a good description of the Ventura River watershed: “The Ventura Watershed lies within the western Transverse Ranges in California, an active tectonic region that contributes some of the highest sediment yields in the United States. The range is composed almost entirely of highly folded and faulted marine sedimentary rocks. Steep slopes in the upper portion of the watershed produce a large portion of sediment supplied to the Ventura River.

Mass wasting from erodible, colluvial soils on hillsides, including slides, slumps, debris flows and earth flows, is a common mechanism by which sediment is transported to the river channels. Sediment production in the area is also impacted by the occurrence of forest fires that clear the normally dense vegetation and greatly increase the erodability of land surfaces”.

In the original 1996 Sanitary Survey, information on soil texture for the Lake Casitas area was obtained from a cooperative report by the Soil Conservation Service, United States Department of Agriculture, and the University of California. According to the report, the soils that had been classified were complex and varied widely in thickness, texture, composition and erodability, and were categorized as very fine sandy loam to clay loam. Most of the region’s soils are easily eroded by precipitation and runoff.

Vegetation

According to the Lake Casitas Final Resource Management Plan/Environmental Impact Statement completed in 2010 by the USBR, vegetation in the watershed area is categorized as upland and wetland types. Native and non-native plant species are found in both categories. Of the upland types, chaparral, coastal sage scrub, and oak woodland are the dominant vegetation types,

followed by grassland. The most dominant of the wetland types are oak or sycamore riparian woodland.

2.2 CLIMATE

Ventura County weather is characterized by the extremes of hot summers and cool winters. Daytime summer temperatures range from the high 70s to the low 90s, and occasionally exceed 100 degrees Fahrenheit. Winter temperatures generally range from the 40s through the 60s. Winds from the ocean have a moderating effect on the climate near the coast. Frosts are rare in the coastal region, but common in the inland valleys and mountains. In general, the higher elevations receive more rain.



During the period from 2005-2010, the average annual rainfall for the Lake Casitas Recreation Area was 19 inches, with a maximum of 29 inches and a minimum of 7 inches. There is seasonal variation in the rainfall, with more of the rainfall occurring between the months of November and April.

CMWD maintains a temperature and recording station at the Lake Casitas Recreation Area. During the period from 2005-2010, the maximum temperature was 112 degrees Fahrenheit, and the minimum temperature was 8 degrees Fahrenheit. Air temperature affects the amount of water use from the lake for domestic water and agriculture. Air temperature also affects algal growth in the lake.

2.3 SOURCE OF WATER

Coyote and Santa Ana Creeks are the major tributaries draining the direct watershed. The streams flow from north to south and receive tributary water from smaller streams. Matilija Canyon and Matilija Creek contribute to the Casitas Watershed indirect inflow. This water is first impounded by the Matilija Dam, and then discharged into Matilija Creek. Matilija Creek flows into the Ventura River between the Matilija Dam and the Robles Diversion Dam.

The Robles Diversion Dam is located on the Ventura River approximately two miles below the Matilija Reservoir, and diverts water from the Ventura River to Lake Casitas. The water flows by gravity into the lake by way of a 5.4 mile long canal. The canal has a total capacity of 550 cfs. From July through December a minimum of 20 cfs must be permitted to flow down the Ventura River past the Robles Diversion to supply the city of Ventura, and for the health of the fishery. From January through June an additional 10 cfs is allocated for fisheries. During storm events, additional water is released.

The fish passage facility (fish ladder) at the Robles Diversion facility was constructed by CMWD in 2005. It allows the endangered Southern California Steelhead to travel upstream of the Robles Diversion facility to spawning areas, and allows fish to migrate downstream to the ocean. This federally mandated project has been a collaborative effort by multiple agencies and community organizations.

When the lake is full there is a large island located in the lake with an area of 244 acres. A smaller island also emerges when the lake level drops. The lake capacity is 254,000 acre feet and the spillway elevation is 567 feet. At this contour the shoreline extends for approximately 30 miles

2.4 HYDROLOGY

Precipitation supplies Lake Casitas with water in the forms of runoff, rainfall directly on the water surface, and water from the diversion.

The Ventura County watershed is subject to a Mediterranean type climate, with long periods of no rainfall, followed by short periods of intense rainfall, and high run off peaks. The runoff peaks are



usually short duration flash floods, with very sharp drops in flow to minimum levels. The events are usually associated with erosion in the watershed and elevated turbidity levels.

See the table 1 for the Casitas Reservoir Inventory Annual Summary:

TABLE 1 -CASITAS RESERVOIR INVENTORY ANNUAL SUMMARY:

Lake Casitas Inflow						
Year	Direct Inflow	Ventura River Diversion	Total Inflow	Released To Distribution System	Rainfall On Lake Surface	Water-year Rainfall at Matilija Dam
2005	53115	26906	79906	17673	7798	74.44
2006	9382	12070	22191	17253	5534	34.58
2007	-1450	0	-386	21326	2253	9.23
2008	15470	9916	26462	18325	5538	33.62
2009	428	498	926	17259	3646	16.56

The safe annual yield of the reservoir is 20,840 acre-feet during a 21 year drought period, as determined from the “Water Supply and Use Status Report” December 7, 2004.

2.5 LAND USE

The watershed area is owned and managed by several different entities (see Figure 1). In 1956 the United States Bureau of Reclamation (USBR) purchased a portion of the watershed as part of the Ventura River Project. The project area included Casitas Dam and Lake, and the Robles Diversion. The USBR has retained ownership of the dam, the lake, and a strip of land extending along the shoreline of the lake. CMWD manages the recreation area adjacent to the lake, and maintains the water distribution system. In 1974 the USBR purchased 3,500 acres of land north of the recreation area. In the past this area was identified as “Casitas Reservoir Watershed” (CRW) or “Teague Memorial Watershed”, and is now identified as “Casitas Open Space”. Between 1976 and 1980 the USBR acquired private parcels in the open space land. This resulted in the purchase and removal of homes in the Santa Ana Creek watershed.

The Lake Casitas Recreation Area (LCRA) is located at the northwest section of the lake. It includes a water playground, lazy river, café, marina and boat docks, launch ramps and campgrounds. Activities in the recreation area include camping, fishing, hiking, bicycling, model planes, and the usual activities found in camping areas.



Another portion of the watershed north and northwest of the lake is managed by the US Forest Service (USFS) which has developed multiple use guidelines for protecting and controlling these lands. There is a USFS Campground at Wheeler Gorge.

Other portions of the watershed consist of private homes located on the Ventura River above the Robles Diversion and homes located along Matilija Creek, which is also located above the Robles Diversion.

There are also several citrus and avocado farms, and a citrus packing plant located north of the diversion.



SECTION 3 DESCRIPTION OF THE CMWD WATER SYSTEM

3.1 DESCRIPTION

The CMWD water supply is obtained from direct local runoff into Lake Casitas, and a diversion canal from the Ventura River, with supplemental supply from Mira Monte Well. This Watershed Sanitary Survey pertains to the surface water sources of supply. Mira Monte well is addressed in the Drinking Water Source Assessment that was done with the Department of Public Health during March of 2003.

CMWD serves a population of approximately 60,000 through 3,070 direct service connections, 258 agricultural connections and 113 commercial or industrial connections. The District serves approximately 8,000 people directly. Most of the population is served through wholesale connections to other utilities.

The primary components of the water system include the source, the treatment facility, and the distribution system. The treatment facility starts at the reservoir intake structure and includes pre-treatment, filtration, chlorination, ammoniation and corrosion control treatment facilities. Distribution includes pumping stations, distribution storage reservoirs, the water distribution pipelines, and finally the customers' meters. The CMWD has an emergency connection with the Carpinteria Valley Water District.

3.2 INTAKE AND TREATMENT FACILITIES

The Casitas Reservoir intake structure conveys water from the lake to the treatment plant (The Marion R. Walker Pressure Filtration Plant). It has gates at twenty-four foot intervals from the surface of the lake to the bottom of the lake. This allows for selective withdrawal from the various elevations in the lake to secure the best water quality. The intake structure conveys water from the lake to the treatment plant.

CMWD operates a high-rate, deep-bed, dual-media, in-line pressure filtration treatment facility. The first step in the process is the addition of polymer and ferric sulfate to aid in the coagulation of particulate matter and turbidity. The water is then pre-chlorinated prior to filtration through eight horizontal pressure filters. Following filtration more chlorine is added and the water moves into a 122" diameter section of pipe that serves as horizontal storage for meeting disinfection requirements. After the requirements have been met, aqueous ammonia is added to stop the formation of disinfection by-products.

The treatment facility has achieved the optimization turbidity goals of the California Department of Public Health (CADPH) *Cryptosporidium* Action Plan.



3.3 DISTRIBUTION SYSTEM

The finished water is fed into a 54” line at a maximum capacity of 100 cfs. The line divides into two sections. The western branch is pumped to the Rincon pipeline. The eastern branch is distributed to customers in the Ojai Valley area and the City of Ventura.

CMWD has ten reservoir locations, ten pump plants, and approximately ninety-seven miles of pipeline. The distribution system covers the area from the Upper Ojai Summit to the Rincon and also serves part of the City of Ventura.

3.4 IMPROVEMENTS AND PROJECTS

There were many improvements to the CMWD water system during the last five years.

- The radio modems for the distribution SCADA were replaced.
- The 4M pump plan Flow tube was replaced.
- The Ojai Valley Pump Plant mainline meter was replaced.
- The interior coatings for pressure filters 3, 5, and 6 were redone.
- The CADPH permit was amended for the addition of orthophosphate.
- Phase 2 of the Rincon Pump Plant Upgrade Project was completed.
- The interior coating of the lamella clarifier was redone.
- Cathodic protection was installed in Rincon Balancing Reservoir # 1 & Oak View Reservoir #1.
- Electrical systems were upgraded at Ojai 4M Pump Plant.
- Phase 3 of the Rincon Pump Plant Upgrade Project was completed.

See Table 2 for reservoirs recoated or cleaned since 2006.



Table 2- Reservoirs Recoated or Cleaned since 2006

Tank: Name or ID	Capacity (MG)	Last Inspection	Last Cleaned	Recoated	Other
Oak View #1	3.5	2006	2006	2009	
Oak View #2	3.5	2006	2006	2011	
Villanova	6.5	2006	2006	N/A	
Fairview #1	1.0	2006	2006	2006	Roof Replaced 2007
Fairview #2	1.0	2006	2006	2010	
Ojai East	3.0	2006	2006	N/A	
4M #1	1.0	2006	2006	2011	Roof Replaced 2011
4M #2	1.0	2006	2006	2010	Roof Replaced 2010
Upper Ojai	1.8	2006	2006	N/A	
3M	1.0	2006	2006	N/A	
Rincon Control	0.25	2006	2006	N/A	
Rincon Balance #1	1.1	2006	2006	2008	
Rincon Balance #2	1.5	2006	2006	2010	
Fortress #1	0.05	1998	2000	N/A	
Fortress #2	0.14	N/A	N/A	N/A	
Gardens	0.01	N/A	N/A	N/A	Roof Replaced 2007

More projects have been completed or planned during 2011.

- The interior of filter vessel #7 was recoated and repaired.
- A portion of Rincon 2M pipeline was replaced.
- The electrical systems at 4M pump plant were upgraded.
- Ojai 4M Reservoir had the interior recoated and the roof replaced.
- The interior of Oak View Reservoir #2 was recoated.



CHAPTER 4 – POTENTIAL SOURCE OF CONTAMINATION IN WATERSHED

4.1 LAKE CASITAS RECREATION AREA

The Lake Casitas Recreation Area (LCRA) provides many recreational opportunities. Amenities include a water playground and lazy river, boat marina with docks and launch ramps, campsites, restaurant, bait and tackle store, gasoline sales, marine repair services, and boat and slip rentals.

The LCRA is managed with the goal of protecting the integrity of the water supply. See the Appendix for Ordinance No. 10-01- *An Ordinance of the Casitas Municipal Water District Establishing Rules and Regulations for the Public Use of the Lake Casitas Recreation Area*. The LCRA is inspected annually by the Department of Public Health. Since Lake Casitas is a drinking water supply reservoir, it is a non-body contact reservoir, and animals are not allowed within 50 feet of the shoreline. The LCRA is inspected annually by the Department of Public Health.

The LCRA features well designed and maintained facilities for day use and camping.

- There are twelve designated campgrounds containing approximately 450 campsites.
- There is one overflow campground containing approximately 200 campsites.
- There are two main shower facilities, one with a holding tank, and one with an on-site septic tank and leaching system.

Sewage and waste water disposal are the most critical concerns associated with large numbers of people recreating near a drinking water supply. To handle these priorities, the LCRA has numerous facilities.

- There are ten vault toilets (2 tanks per building) throughout the park.
- There are two vault-type RV dump stations.
- Four restrooms at picnic #12 (Coyote Ramp) which are pumped to Coyote Dump Station.
- A 500 gallon holding tank serves the event area and one camp host.
- A 500 gallon holding tank serves host site E-1.
- Two- 5000 gallon tanks serve the restaurant and RVs at snack bar area.
- Two-1800 gallon holding tanks serve RVs in F camp area.
- A vault holding tank serves the basketball court area and the RVs near Picnic Area 1.
- There is an 1800 gallon holding tank for the sink at Picnic Area 8.
- The two fish cleaning facilities have vault holding tanks.
- There are three floating restrooms (USS Reliefs) on Lake Casitas.
- Eighty chemical toilets are found throughout the LCRA.

The CMWD maintenance team keeps a constant check on the level of waste in the toilet vaults and holding tanks, making sure tanks are routinely pumped and overflow is prevented. All vaults,



chemical toilets, floating restrooms, fish cleaning vaults, and RV dump stations are maintained by CMWD, which operates its own waste pump truck and hauls the waste to the Ojai Sanitary District Waste Treatment Facility on a daily basis.

Trash, litter, and refuse are collected on a regular basis from bins and containers throughout the park. Trash is also placed in a large roll-off out of view from the public and away from the water supply. The roll-off is emptied on a regular basis by contract with a trash disposal company.

Hazardous waste, such as motor oil and unused paint, are collected by the employees on a regular basis and stored in the maintenance yard. These wastes are normally disposed of through the Ventura County Conditionally Exempt Small Quantity Generators Hazardous Waste drop-off day. Occasionally hazardous waste disposal is contracted out for items not accepted by the county. The County of Ventura Environmental Health Division regulates hazardous materials and hazardous wastes, and inspects the maintenance yard on an annual basis.

An urban storm water collection system has been installed between the main parking area and the lake to provide water quality protection.

Recreation activities that can potentially impact water quality include boating and fishing, commercial filming, special events, camping, hiking and biking. Also, some visitors bring animals to the LCRA. Water quality protective measures are associated with each of these activities.

Boating and Fishing

Boating and Fishing activities occur through out the year on Lake Casitas. The LCRA has facilities and policies that help protect water quality.

- A permit is required to operate a boat at the LCRA; prior to issuance of a permit the boat will be inspected for integrity and evidence of invasive species.
- Signs are posted near fishing, docking, and public access areas to prevent illegal dumping and accidental rollover of vehicles into the lake. Park personnel maintain a supply of petroleum spill clean up materials, and have the ability to respond to spills should they occur. In the event of a larger spill, a professional clean up company will be contracted. California Department of Public Health is notified of any spills that are beyond incidental.
- Fuel dock facilities are constructed and maintained for spill prevention. Three double walled tanks with secondary containment are located on shore, and two pumps with emergency off switches are located on the dock. For additional safety there are manual valves that can be closed. The fueling facility is inspected on a daily basis by the concessionaire. The County of Ventura Environmental Health inspects the tanks on an annual basis.
- A spill response plan has been developed by the LCRA. The staff maintains a supply of petroleum spill cleanup materials. In the event of a larger spill, a professional clean up company will be contacted.



- There are three floating restrooms (USS Reliefs) located on Lake Casitas. They are the standard design used by the State Department of Parks and Recreation and were approved by the California Department of Public Health. The structure has a double hull and inspection port. If the internal hull leaks, waste material will be retained by the outside hull. If a leak should occur, the structure will be taken off the lake and the inner hull will be repaired. The floating restrooms are towed to the launch ramp and pumped out by the Casitas waste pump truck on a regular basis.
- Two fish cleaning sinks are located in parking areas, set back from the high water level of the lake and maintained by LCRA staff.
- A closed zone is maintained approximately 1,700 feet from the Casitas Dam intake. A buoy line and posted signs separate the fishing area of the lake from the closed area surrounding the intake. The LCRA staff patrol the lake to make sure that no boats enter the closed area at any time. Shorelines for both the lake and islands are designated as off limits to boaters through posting and buoy lines. The LCRA staff patrol these areas on a regular basis.
- CMWD adopted Resolution No. 0-08, which restricts boats from entering the recreation area until successfully completing a “clean and dry” inspection and a quarantine period of ten days. Another option is to store the boat at the LCRA and participate in the tamper proof tag program that verifies the boat has not visited any other lakes. See appendix for CMWD Resolution N0. 08-08. Because of the invasive species problem, float tubes have been temporarily banned since March 2008. When, and if, the restriction is lifted, use of float tubes is subject to certain conditions.
- The boat concessionaire collects fees, and tallies the number of people canoeing or kayaking. The Recreation Area Inspection Report submitted to California Department of Public Health includes any body contact incidents associated with these activities.
- A monthly report that is submitted to CADPH includes daily visitor counts, inspections, problems encountered, corrective actions, and incidents or violations involving body contact or water quality problems.

Commercial Filming

Commercial Filming and Recreation Events occasionally take place at Casitas. No body contact is allowed, and a formal agreement is made beforehand to ensure compliance with the CMWD Policy for Filming/Commercials at Lake Casitas Recreation Area. The policy provides guidelines and procedures for commercial filming at LCRA while recognizing the importance of maintaining water quality. The application involves the completion of a checklist which is reviewed by CMWD prior to approval of the project, and review/approval by the USBR. See appendix for the CMWD Application for Filming.

Special Events

During special events staffing is increased to handle the increased visitor load. The LCRA staff patrols the event area in order to limit access to the shoreline area. Depending upon the nature of the event, security is increased by hiring a private contractor, or the Ventura County Sheriff's Department. Rental chemical toilets are placed in convenient locations. Parking is off site and



across the road from the LCRA. Immediately following the event, the area is cleaned and returned to the original condition. The event coordinator is required to report waste amounts to Ventura County Integrated Waste Management Division.

Camping, Hiking and Biking

Campers must acquire a permit prior to camping at the LCRA. Camping, hiking and biking activities occur throughout the year. Facilities for campers include bathrooms, shower house, sewer hookups, trash, and waste hauling. LCRA staff patrol the shoreline area and patrol the lake by boat.

Animals

Animals must be leashed and kept 50 feet from the lake shore, with the exception when dogs are allowed on boats. It is unlawful for any person to bring a horse into the recreation area without a valid special event permit or written permission from the General Manager.

In conclusion, most of the recreational and restroom facilities are located on the north shore of the lake. These activities and facilities present potential sources of contamination, but they are managed and maintained by CMWD in a way that prioritizes water quality.

4.2 WATERSHED WASTE DISPOSAL SYSTEMS

Private Waste Disposal Systems

There are four different areas of the watershed where private waste disposal systems can be found.

- Private waste disposal systems are found in the LCRA. For more information see the discussion in section 4.1.
- Portions of Coyote and Santa Ana Creek are in the Casitas Open Space area. Private residences with waste disposal systems have been removed with the exception of one remaining life lease, and one residence managed by the USFS.
- Residences with private waste disposal systems are found on private in-holdings within the USFS boundary
- There are approximately 150 cabins and homes with private waste disposal systems located in Matilija Canyon and the upper Ventura River watershed area. All private sewage disposal facilities were inspected during the original 1995 Watershed Sanitary Survey and found to be in satisfactory condition. Any new systems installed since that time have been inspected by the County of Ventura Environmental Health Department (EHD). The County of Ventura EHD Individual Sewage Disposal System Program is responsible for reviewing septic system design proposals and design criteria. This agency is also responsible for inspection of new septic systems and repairs of existing systems to determine conformance with applicable codes.



Public Waste Disposal Systems

The USFS Campground at Wheeler Gorge uses concrete vaults for sewage waste containment. These vaults are pumped and waste is hauled off the watershed. All other waste generated at the campground is also hauled off the watershed.

There has been an issue documented involving the Los Angeles Regional Water Quality Control Board (RWQCB) and USFS Fire Station located near the northwest shore of the lake. The USFS facility was issued a notice of violation of waste discharge requirements, April 29, 2011, involving a failure to submit monitoring reports, and, a failure to submit monitoring reports on time. The violation states that some semiannual reports for 2007 were late, and some semiannual reports for 2008-2010 had not been submitted. A report detailing corrective action and preventative actions taken to come into full compliance with Board Order No.95-102 has been requested. The USFS station is planning beneficial future improvements that include a new leach field that will be located further away from Station Creek and Lake Casitas.

Wastewater Collection Systems

Ojai Valley Sanitation District operates the wastewater collection system for the Ojai Valley. However, there is no portion of these waste water collection systems on the Casitas Watershed or the Ventura River above the Robles Diversion. The Ojai Valley Sanitation District Wastewater Treatment Plant is located near the Ventura River, downstream of any area that would affect the Lake Casitas Water supply.

4.3 AGRICULTURE, PESTICIDES AND HERBICIDES

There is some use of pesticides and herbicides in the Casitas Watershed area, so a pesticide use report was obtained by the Ventura County Agricultural Commissioners Office. Avocados are the main crop in the watershed area listed in the report. The CMWD LCRA uses small amounts of herbicides and pesticides that are applied according to the label directions. Roundup herbicide is used to spot control weeds. It is not applied during times of rain run off. Gas pesticides are used to control the ground squirrel population. The amount and type of herbicides and pesticides used by CMWD LCRA are reported to the Ventura County Agricultural Commission. CMWD is in the process of finalizing a comprehensive Pest Management Plan.

The county of Ventura Watershed Protection has been using glyphosate for the removal of Giant Reed (*Arundo donax*). The sampling program results have shown non-detect for glyphosate.

4.4 ANIMALS

A wide variety of wild and domestic animals inhabit the watershed. Livestock grazing and wildlife grazing have the potential for contaminating the water supply. Any runoff from the livestock grazing will predominately enter Lake Casitas from the tributary streams of Coyote Creek and Santa Ana Creek and the Ventura River Diversion. These tributaries enter the lake at the extreme north end of the



lake, which is approximately three miles from the south end of the lake where the domestic water intake structure is located.

Wildlife

The naturally vegetated areas of the watershed provide shelter, food and nesting for a wide variety of animal species. The USFS 2010 Revised Land Management Plan and Final Environmental Impact Statement (EIS) lists the following wildlife populations for the Casitas Watershed: Birds, fish, reptiles, and mammals such as opossum, skunk, raccoon, mountain lion, bobcat, coyote, fox, wild pigs, black bear, and black-tailed mule deer. There is wildlife grazing along the periphery of the reservoir. However, the numbers are not significant from the standpoint of potential contamination.

Grazing Practices

The USFS has one small grazing lease in the LPNF within the Lake Casitas Watershed. The number of permitted animals is limited to twenty, and the grazing season is limited within the time period between March and August. The grazing lease location is not close to the lake, and the cattle do not have access to the lake.

Livestock Use and Control

There are no permitted authorizations for livestock use on lands controlled by the USBR and/or CMWD. The USFS has issued one grazing lease in a portion of the Los Padres National Forest (LPNF) that is near Santa Ana Creek. There are also three private landholdings within the LPNF on which horses or cattle are maintained by the property owners. There are no commercial feedlots within any of the local watersheds.

The CMWD has sought cooperation with the private property owners and the USFS to implement Best Management Practices (BMPs) for the protection of water quality within the direct watershed. CMWD has also been engaged in a water quality monitoring program within each specific area of the local watershed.

The State Water Resource Control Board (SWRCB) has established minimum guidelines for protection of water quality from animal wastes. The regional water quality control board uses these guidelines in the preparation of water quality control plans and waste discharge requirements for the protection of water quality from the disposal of animal wastes.

The SWRCB and the Ventura County Resource Conservation District have been working with one individual property owner on implementing Best Management Practices. The property owner has received an Environmental Quality Incentives Program cost share from the National Resource Conservation Service. Recommendations for engineering necessary for accomplishing the BMPs have been made and work is in progress.



4.5 MINING, OIL AND GAS, LOGGING

Mining, Oil and Gas

The Lake Casitas Watershed lands that are controlled by the USBR and CMWD are closed to all mining. A portion of the watershed on USFS land is open to mining, but if any mining activity is proposed, the National Environmental Policy Act (NEPA) would be initiated, and an environmental assessment or environmental review would be required. It is expected that CMWD would provide significant comments if mining was proposed in the watershed area. The USFS does have some regulatory control of mining operations and the claimant would be required to submit a plan of operations. The USFS would then set conditions on the process.

On USFS land CMWD and the USBR had formerly obtained a 20-year mining withdrawal of approximately 65,000 acres that expired in 2004. The withdrawal area was approximately 5 miles northwest of lake and included part of the drainage basins of Coyote, Santa Ana, and Matilija creeks. The original withdrawal was initiated because Homestake Mining Company had staked a claim with intentions to mine uranium ore. Since the mining withdrawal has expired, the watershed area is now open for mineral claims. However, there is no history of interest in the area, except for the original claim that initiated the withdrawal.

Logging

There is no history of logging on CMWD watershed lands and the USFS has not issued any logging permits in the area in recent history. There is no marketable timber on the watershed.

4.6 EROSION AND URBAN RUNOFF

The impact of erosion on water quality within the Lake Casitas Watershed is directly related to the erodible soils, rainfall intensities, natural occurrences (fire), and land use. The primary impact of erosion is to the water quality of Lake Casitas. Specific water quality impacts resulting from erosion are elevated turbidity and increased nutrient loading that may lead to algal blooms. The Lake Casitas Pressure Filtration Plant (constructed in 1995) operates to remove turbidity and particles from the drinking water, but it is recognized that the plant has physical and performance limitations that can result in deficiencies in water quality and quantity.

There is very limited urban storm water runoff from the Casitas Watershed into Lake Casitas because of limited urban development on the watershed or on the Ventura River above the Robles Diversion. The USFS Wheeler Gorge Campground on the Ventura River and the LCRA are the only areas of major development on the watershed.

The SWRCB regulates urban runoff using the NPDES permit. The permit covers discharges from the Municipal Separate Storm Sewer Systems in the Ventura County Watershed Protection District (VCWPD), the county of Ventura, and all of the incorporated cities.



4.7 UNAUTHORIZED ACTIVITIES

There is an occasional occurrence of unauthorized dumping within the Casitas Watershed. Most of these events are limited to the sides of county or state roads, and are primarily unwanted household furniture and appliances. Enforcement and removal is generally under the jurisdiction of federal, state, and local authorities. CMWD personnel inspect tributaries to Lake Casitas on a regular basis in conjunction with sampling and stream flow data collection.

Body contact is prohibited at Lake Casitas and the Robles Diversion Canal. There is unregulated public access in the Ventura River above the Robles Diversion, in Matilija Creek, and in the North Fork Matilija Creek. This body contact is an incidental use and occurs only during the summer when water is not diverted through the Robles Diversion to Lake Casitas.

4.8 RECREATIONAL USE OUTSIDE THE RECREATION AREA

Recreational use of the watershed outside the recreation area consists of hiking, horseback riding, and hunting. A number of trails for backpackers are located in the Los Padres National Forest. Backpackers and other campers in the Los Padres National Forest must obtain permits from the US Forest Service for campfires.

4.9 FIRE HAZARDS AND PREVENTION

A large portion of the watershed is designated as a potentially hazardous fire area by the Ventura County Fire Department (VCFD). This is due to a combination of factors. First, a large portion of the watershed is in the Los Padres National Forest, which includes large areas of very dense vegetation in rugged terrain. Second, there is also the Mediterranean-type climate of the area, featuring wet winters and very dry summers. These two factors, combined with the phenomenon of Santa Ana winds (very dry winds originating in the interior deserts to the east of Ventura County), all contribute to the hazardous fire conditions of the area. The last significant fire in this watershed occurred in 1985. There were no major brushfires in the watershed from 2006-2010.

The US Forest Service provides fire control and prevention on the major portion of the watershed which is in the LPNF. The VCFD controls fire prevention activities on the rest of the watershed. CMWD manages the Casitas Open Space Area

4.10 TRAFFIC ACCIDENTS

State Highway 33, also called the Maricopa Highway, is closed to all hazardous waste haulers. Highway 150, which runs adjacent to Lake Casitas, is not closed to this activity. Efforts have been made to change this situation without success.



4.11 TOXIC WASTE SITES

The Department of Toxic Substances Control “EnviroStor” environmental database provides a listing of and information on toxic waste sites. A search of the site produced no active or inactive sites in close proximity to the lake.

4.12 HAZARDOUS MATERIALS

The Ventura County Environmental Health website was accessed for the following searches:

Inactive Hazardous Material Sites
Certified Unified Program A Facilities (Business Plans)
Leaking Underground Fuel Tank Clean up Sites
Inactive Underground Tank Sites
List of Voluntary Clean up Program Sites

The search produced no information suggesting that any of these sites have caused a surface water quality problem during the last five years.

There were no major chemical spills in the vicinity of the lake during 2006-2011. The Ventura County Environmental Health Division website can be accessed for a weekly hazardous spill report entitled, “Hazardous Materials Discharge Summary Report.”

4.13 MATILIJA DAM REMOVAL PROJECT

The Matilija Dam was constructed in 1948 for the purpose of water storage and flood control. The Matilija reservoir had an initial capacity of 7,000 acre feet. A large amount of siltation has occurred since that time. The reservoir now has a capacity of less than 1,000 acre feet. The US Army Corps of Engineers has developed proposals to remove the dam. The removal of the dam has the potential to release approximately 2 million cubic yards of fine silt that has built up behind the dam. Depending upon the method of silt removal that is chosen, the silt could possibly enter the CMWD water system through diversions at the Los Robles Canal. Efforts are being made to ensure that the project is carried out in a manner that won't impact water quality through the release of silt laden with nitrogen, phosphorous and organic material. These nutrients become part of the lake ecosystem. Algal blooms will be enhanced and cause problems with lake clarity, finished water taste and odor issues, and filtration plant performance problems. CMWD is participating in the planning process and is collecting baseline data samples for nutrients and inorganic compounds.



4.14 ANTICIPATED GROWTH AND PROJECTED CHANGE IN SOURCES OF CONTAMINATION

The construction of new homes within any part of the watershed is not expected to occur or increase substantially. In the Casitas Open Space area there is only one remaining life lease, and one residence has been reserved by the USBR for housing an on-site USFS security officer.

The areas to the east and west of the lake are particularly steep and rugged, and are considered undevelopable. Most of the northwest portion of the watershed is located in the LPNF. This land is very mountainous, and is covered by chaparral and sage brush. The value of this land for development is quite limited. However, it creates an open space that is valuable to the people living in the area, as well as the people using the Lake Casitas Recreation Area. The Ojai Area General Plan, the USBR RMP, and the USFS all limit or control growth.

The grazing of livestock in the National Forest is not expected to change substantially.



SECTION 5 -WATERSHED CONTROL AND MANAGEMENT PRACTICE

5.1 CASITAS POLICIES & PROCEDURES

Recreation Area

Casitas Reservoir is open to the public for non-body contact recreational activities. The average number of visitors per day from 2006-2010 was 2,041 people, and the maximum number of visitors per day for the same time period was 22,264 people.

Ordinance 10-01

The Casitas MWD operates the Lake Casitas Recreation Area in conformance with Casitas Municipal Water District Ordinance No. 10-01, Ordinance of the Casitas Municipal Water District establishing rules and regulations for the public use of the Lake Casitas Recreation Area (see appendix). This ordinance establishes rules and regulations for the public use of the area.

- Section 5.1, The Sanitary Regulation of the Ordinance protects the sanitary quality of the lake and covers bodily contact, animals, children, trash disposal, fish cleaning, waste discharge from boats, gas or oil discharge from boats, and boat integrity.
- Section 5.2 of Ordinance 10-01 covers the boating Regulations and permitting.
- Section 5.4.5 of Ordinance 10-01 covers the use of fireworks, preventing possible pollution from fireworks which contain perchlorates.
- It shall be unlawful for any person within the park to receive, bring or cause to be brought into the Recreation area, or use, possess, or discharge, fireworks, firearms, or other explosives other than fuels except when authorized by the General Manager.

Ordinance 08-08

A key change in the LCRA ordinances is the adoption of the Invasive Species Resolution. During 2008 CMWD passed a resolution limiting access to Lake Casitas in order to control invasive species, mainly Quagga and Zebra Mussels. It is "The CMWD Resolution No. 08-08 Resolution of the Board of Directors of CMWD limiting Access to Lake Casitas in Order of Control Invasive Species". According to the resolution, boats that are stored, moored, or docked in the LCRA can be launched at Lake Casitas as long as the vessel remains within the recreation area. Any vessel that is currently in the designated recreation area storage location or moored at docks in the Santa Ana arm of Lake Casitas, and then is removed for any purpose, may only re-enter the recreation area by maintaining current status for storage or mooring. This includes remaining current on all storage or mooring fees, passing the clean and dry inspection at the recreation area, and submitting to a 10-day quarantine storage at the recreation area before being allowed to launch into Lake Casitas. CMWD will deny public access to the Park based on any potential of any contamination by any vessel. Float tubes have been temporarily banned because of potential contamination from Quagga and/or Zebra mussels.



CMWD also has a Quagga/Zebra Mussel early detection program that includes substrate monitoring in the lake, and microscopic analysis of plankton tows. The purpose of the resolution 08-08 is to protect water quality of the lake and distribution system, and to protect CMWD's customers from escalating costs for equipment maintenance and replacement.

Resolution No. 77-8

This is a resolution clarifying the position of the board of directors of Casitas Municipal Water District concerning use of lands acquired under the Casitas open space program.

This resolution was developed by the CMWD's board of directors in 1977 during the USBR acquisition of the Teague Watershed (Casitas Open Space). The purpose of the resolution was to specify the intent of CMWD to have watershed lands remain in their present natural condition, and the desire to protect the watershed from uses detrimental to water quality. See the Appendix for Resolution No. 77-8.

Watershed Management Ordinance 81-2

The Casitas MWD enacted Rules and Regulations for the Management of the Charles M. Teague Memorial Watershed on June 24, 1981. This ordinance has been replaced by the USBR Resource Management Plan.

Lake Management

Enhancement, protection, and maintenance of water quality within the Casitas Watershed has always been a major goal of the district. One factor influencing the decision of CMWD to protect water quality is that recreational usage of the lake is very high. CMWD has continued to maintain its position on watershed control and management practices, even though the water supply is filtered and disinfected. Routine lake and watershed monitoring includes: bacteria (total coliform and *E. coli*), algae, dissolved oxygen, temperature and turbidity profiles. The aeration system, intake structure, and algae control have been important tools used by CMWD for lake management.

Aeration System

The aeration system prevents the formation of anaerobic waters in those portions of the lake near the intake structure, thus enhancing CMWD's ability to utilize the intake structure effectively. The aeration system helps prevent the formation of hydrogen sulfide and manganese, both of which can have adverse affects on the water treatment process. It also helps prevent the recycling of phosphorous from the bottom sediments. Phosphorous can enhance algal growth, causing taste and odor problems and filtration issues at the treatment plant.

The aeration system is normally operated continuously from April-November of each year. A new aeration system was installed during 2005.



Intake

A major feature of the water supply system at Lake Casitas is the multi-level intake structure which provides water to the distribution system, and includes nine hydraulically operated gates located at 24 feet vertical intervals. The variable intake structure allows selection of the depth at which the best water quality exists for delivery to the distribution system. While taste and odor problems still occur in surface waters on occasion, water quality remains good at depths from which water is drawn into the system. The multi-level intake structure has been a valuable tool for avoidance of water affected by algal blooms. Managing water quality using intake selection is not as effective when the lake is mixing, or if algal growth is heavy.

Algal Control

During spring, summer, and fall, samples are taken at specified locations in the lake and algal species are identified and enumerated. Monitoring is increased if organisms linked to taste, odor, or treatment plant problems are identified. If the amount of algae increases to the point where a problem is identified, the lake will be treated with an algaecide. A lake treatment using sodium carbonate peroxyhydrate was done during the summer of 2010 for algae control. Copper sulfate has not been used for algal treatment since 1999.

Invasive Species (Quagga/Zebra Mussels)

CMWD has a Quagga/Zebra Mussel early detection program that includes substrate monitoring in the lake, an annual underwater survey, and microscopic analysis of plankton tows.

CMWD Emergency Response Plan

The Emergency Response Plan (ERP) is a comprehensive plan that describes the actions CMWD would take in response to various major events such as natural disasters or security problems that can damage or disrupt the ability to serve the public potable water. The ERP is filed at the CMWD's main office.

5.2 COUNTY OF VENTURA

The County of Ventura has several agencies that are involved with the protection of the watershed, including the Resource Management Agency, the Public Works Department, and the Ventura County Fire Protection Department.

The Resource Management Agency

The Resource Management Agency has the stated goal of protecting health, safety and welfare through administration and enforcement of County ordinances, Board policy, state and federal laws regarding land use, and commercial and environmental regulation. The RMA Division that most directly affects the watershed is the Environmental Health division (EHD). Building & Safety, Code Compliance and the Planning Division are involved to a lesser extent.



County of Ventura Environmental Health Individual Sewage Disposal Systems Program:

At the time of the first Watershed Sanitary Survey in 1996, the Ventura County Critical Watershed Ordinance of January 14, 1958 was in effect. This ordinance regulated the construction, repair and alteration of sewage disposal systems in the watershed area and was enforced by the County of Ventura EHD. The ordinance applied to the Casitas Watershed and a portion of the Ventura River above Robles Diversion Dam. The Critical Watershed Ordinance has been superseded and overlaid with similar county code rules that are more protective, but it has not been formally rescinded at this time.

Currently, the County of Ventura EHD Individual Sewage Disposal Program is responsible for protecting public health and the environment from adverse impacts associated with onsite wastewater treatment systems (OWTS). An OWTS is used for the disposal of wastewater from structures that do not have access to a public wastewater treatment facility. The County of Ventura EHD carries out this responsibility through review of septic system design proposals and criteria; and the inspection of new and existing systems under repair, to determine conformance with applicable codes. Before any person is issued a plumbing permit for original construction, alteration, repair or relocation of any sewage disposal system, approval of the proposed sewage disposal system by the County of Ventura EHD is required. The California Health and Safety Code requires that the most recent addition of the Uniform Plumbing Code be used as criteria for the design and construction of individual sewage disposal systems.

The County of Ventura EHD offers a technical manual, for owners of privately owned and maintained sewage disposal systems titled "The Onsite Wastewater Treatment System Technical Manual". It is available on the County of Ventura EHD website. The Manual provides guidance to owners, designers, and installers of onsite wastewater treatment systems, and facilitates successful applications for the design, upgrade, and repair of these systems. The Manual also describes procedures and standards necessary to adequately protect public health, safety, and water quality, because household wastewater may contain many types of contaminants, such as harmful bacteria, viruses, nitrate and chemicals. As the Manual states, the purpose of an OWTS is to provide treatment of wastewater by removing contaminants through physical, biological, and in some cases chemical means, in a manner that is protective of human health, safety, and the environment.

California is currently in the process of adopting a statewide policy (AB 885) to address the issue of OWTS pollution. If county regulations happen to fall short of protecting water quality, the state policy works as a back up to protect public health and the environment. This new policy will affect owners of existing septic systems that are adjacent to a nitrate impaired surface water, installation of new or replacement OWTS, and existing systems in need of repair. The policy is currently in draft form, and will most likely be adopted sometime before the next Watershed Sanitary Survey Update is due.



County of Ventura Environmental Health Hazardous Materials Program:

The Ventura County Certified Unified Program Agency (CUPA) Hazardous Materials Program provides regulatory oversight for the following six statewide environmental programs: Hazardous Waste, Hazardous Materials Business Plan, California Accidental Release Prevention Program, Underground Hazardous Materials Storage Tanks, Aboveground Petroleum Storage Tanks/Spill Control and Countermeasure Plans, and Onsite Hazardous Waste Treatment/Tiered Permit.

For the above programs, the CUPA implements State and Federal laws and regulations, county ordinance code, and local policies. Compliance is achieved through routine and follow-up inspections, educational guidance, and enforcement actions. The CUPA also is involved with hazardous materials emergency response, investigation of illegal disposal of hazardous waste and public complaints.

The County of Ventura EHD requires the recreation area to file a business plan because it stores and uses chemicals over certain threshold amounts. The business plan identifies the amounts, types, and locations of hazardous materials, and this information is shared with the fire department in case emergency response is needed. The County of Ventura EHD conducts annual inspections of the recreation area to verify compliance with the business plan, hazardous waste laws, and emergency response regulations. Also, the County of Ventura EHD inspects the underground tanks and their leak alarm systems on an annual basis. The County of Ventura EHD also investigates possible cases of illegal disposal of hazardous waste.

County of Ventura Public works Department

County of Ventura Watershed Protection District

The Public Works Department oversees the Watershed Protection District (WPD). The WPD's mission is "to protect life, property, watercourses, watersheds, and public infrastructure from the dangers and damages associated with flood and storm waters". Goals of the WPD include comprehensive long range watershed planning, collaboration with watershed stakeholders, administration of adopted regulations and policies and resolutions, responsible and accountable use of public resources.

County Building and Safety Division and Code Compliance

The County Building and Safety Division provides oversight and review on construction projects in areas of the watershed that are regulated by the county. Grading projects require a permit and plan review by this agency. Code compliance handles complaints regarding illegal dwellings.

Planning Division

The Planning Division regulates the use of land within the unincorporated areas of the county. This division issues permits for land uses and structures, enforces permit conditions, and maintains consistency with county zoning ordinances, the General Plan and the Ojai Area Plan. The



Planning Division also engages in long range community planning through the Area Plans. All discretionary development (e.g., subdivisions, conditional use permits and private developments) in the county must meet criteria for the protection of biological resources, soil stability, and storm water quantity and quality including the avoidance of erosion, flooding, fire hazards, and adverse impacts on human health. The unincorporated portion of the watershed area is zoned Open Space (OS). According to Sec. 8104-1.1 of the Ventura County Zoning Ordinance, the purpose of this zone is to provide for the preservation of natural resources, and public health and safety. This includes watershed areas which require special management or regulation for the protection of water quality and water supply.

Scenic Resource Protection Overlay Zone:

The Ventura County General Plan section 8104-7.1 also designates the watershed around Lake Casitas as a Scenic Resource Protection Overlay Zone. The purposes of this zone are:

- (a) To preserve and protect the visual quality within the view shed of selected county lakes, along the county's adopted scenic highways, and at other locations as determined by the Area Plan
- (b) To minimize development that conflicts with the value of scenic resources
- (c) To provide notice to landowners and the general public of the location and value of scenic resources which are of significance in the county.

The boundary of this area includes the lake and the viewshed extending from the lake to the highest surrounding ridgeline. Additionally, a small portion of the Lake Matilija view shed has also been designated as a Scenic Resource Protection Zone. Within a Protection Overlay Zone, the county can regulate the uses that may adversely affect the area's scenic qualities. The Lake Casitas Scenic Resource Protection Overlay Zone encompasses approximately 4,592 acres (excluding Lake Casitas).

Any request for significant grading (excavation or fill greater than five feet in height, a cumulative area of 1,000 square feet or greater, or 1,000 sq ft or more of native vegetation removal) must be evaluated through the discretionary permit process. No new use may be permitted which could significantly contribute to the degradation or destruction of the scenic resource

Ojai Area Plan:

The CMWD watershed is located within the Ojai Area Plan. This plan specifies the distribution, location, types, and intensity of land uses. This area includes approximately 74,000 acres of unincorporated portions of the Ojai Valley and the Ventura River Valley. The plan was reviewed by the Ventura Planning Commission, adopted by the Board of Supervisors, and is implemented by county staff. The goal of the Ojai Plan, as it relates to water quality is to ensure that water which currently meets state standards shall not be degraded and also ensure that water quality which does not meet state standards (turbidity) is improved.



The plan requires new developments generating sewage in aquifer recharge areas to hook up to sewers if available. Existing homes with private waste sewage disposal systems that operate improperly, and new developments, shall be required to make necessary modifications or to convert to a sewer system if available. The plan specifies that new oil and gas exploration activity, and production activity, should not affect the quality or quantity of the present water supply. The unincorporated portion of the watershed is closed to all oil and gas exploration. Also, alternatives to chemical methods of pest control and fertilization are encouraged.

Ventura County Fire Department (VCFD)

The VCFD provides fire prevention, fire suppression, fire investigation, a hazardous materials response team, emergency medical services rescue, and related emergency services activities within the Casitas Open Space portion of the watershed. The USFS provides fire control and prevention on the LPNF portion of the watershed. The Casitas Open Space portion is served by Battalion No.2 with fire stations at the Summit, and the cities of Ojai, Meiners Oaks, and Oak View.

The VCFD requires annual brush clearance around structures in high fire severity zones, and is also responsible for reviewing development permits to ensure that an adequate level of fire protection is provided. One method of fire hazard management in Ventura County has been the prescribed burn program. This method has not been used in the Lake Casitas Watershed.

Other Fire Protection Agencies

Fire protection for the Los Padres National Forest area is provided by the USFS. A USFS Station with engine companies and a helicopter pad is located on the west side of Lake Casitas. The nearest USFS station at Wheeler Gorge is located north of the boundary near Wheeler Springs. There is a mutual aid agreement between the county and all other fire services agencies in the county which allows for reciprocal aid if necessary. These mutual aid agreements are important in the event a major event occurs which requires fire suppression resources in excess of that available from the VCFD. The mutual aid agreement also provides for emergency backup fire protection when the fire protection district equipment is out of the station.

5.3 UNITED STATES ENVIRONMENTAL PROTECTION AGENCY (USEPA)

The USEPA works with state and local regulators to maintain drinking water source and finished water quality.

Source Water Assessment

One of the main tools used by the USEPA is the Source Water Assessment Program. This program was developed by the USEPA, but CADPH is required to develop and implement the program. One of the goals of these assessments is to give water utilities and the public the information they need to decide how to protect their drinking water sources.



Pollution prevention NPDES

The Water Permits Division within the U.S. Environmental Protection Agency's Office of Wastewater Management leads and manages the National Pollutant Discharge Elimination System (NPDES) permit program in partnership with USEPA and the SWRCB. The permit program plays an important role in minimizing the wastes and pollution load released into receiving bodies.

Vulnerability Assessment (Security of the Watershed and Treatment Facilities)

The Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (Public Law 107-188) requires public water systems to conduct vulnerability assessments. Casitas has conducted a Vulnerability Assessment (VA) and submitted it to the CADPH and the USEPA. The purpose of the VA is to help water systems evaluate the susceptibility to potential threats and identify corrective actions that can reduce or mitigate the risk of serious consequences from adversarial actions. The VA took into account the watershed, water supply, transmission systems, treatment systems, and the risks posed to the surrounding communities related to attacks on the water system. The VA document is security sensitive and protected from public dissemination by the USEPA.

Contaminant Monitoring

The USEPA also develops and implements contaminant monitoring regulations including emerging contaminants. The CADPH implements some of these programs.

5.4 CALIFORNIA DEPARTMENT OF PUBLIC HEALTH

According to the CADPH website, "The CADPH's Division of Drinking Water and Environmental Management promotes and maintains a physical, chemical, and biological environment that contributes positively to health, prevents illness, and assures protection of the public."

The Northern California and Southern California Field Operations Branches (FOBs) are responsible for assuring the delivery of safe drinking water by enforcement of the Safe Drinking Water Act, and the regulatory oversight of public water systems.

- The FOB staff performs field inspections, issues operating permits, reviews plans and specifications for new facilities, handles enforcement actions for non-compliance, review water quality monitoring results, and supports and promotes water system security.
- The FOB staff are involved in funding infrastructure improvements, and conducting source water assessments.
- The FOB staff work with the USEPA, the SWRCB and RWQCBs, and other parties interested in the protection of drinking water supplies. On the local level, FOB staff work with county health departments, planning departments, and boards of supervisors.
- The Technical Programs Branch is responsible for maintaining the scientific expertise of the Drinking Water Program.



- The Standards and Technology Unit maintains state-of-the-art technology expertise, develops monitoring and water quality regulations, and conducts special studies drinking water contaminants.
- The Treatment Technology Unit reviews and evaluates new treatment technologies or expansion of operations of existing treatment technologies in drinking water. This section also coordinates the Drinking Source Water Assessment Program (DWSAP), and implements and ensures compliance of state and some federal regulations.
- The Treatment Technology Unit reviews and evaluates new treatment technologies or expansion of operations of existing treatment technologies in drinking water. This section also coordinates the Drinking Source Water Assessment Program (DWSAP), a requirement of the Safe Drinking Water Act (SDWA). The Drinking Water Source Assessment Program (DWSAP) is a study that defines the land area contributing water to each public water system, identifies the major potential sources of contamination that could affect the drinking water supply, and then determines how susceptible the public water supply is to this potential contamination. Public utilities and citizens can then use the publicly available study results to the take actions to reduce potential sources of contamination and protect drinking water”. The Treatment Technology unit also coordinates the Drinking Source Water Assessment Program (DWSAP), and implements and ensures compliance of state and some federal regulations.

5.5 STATE WATER RESOURCES CONTROL BOARD

The Porter-Cologne Water Quality Act authorizes the State Water Resources Control Board (SWRCB) and the nine Regional Water Quality Control Boards, including the Los Angeles Region to regulate water quality in California. The SWRCB and the Regional Board are the agencies primarily responsible for protecting the waters of the State, including groundwater, from degradation.

NPDES Program

The SWRCB implements the USEPA's national Pollutant Discharge Elimination System (NPDES). This program manages many types of urban discharges which may adversely affect water quality. The agency issues permits that require Best Management Practices and monitoring for the prevention of pollutants that can be introduced into water bodies.

Basin Plan

The Ventura River portion of the watershed is regulated by the basin plan for the Los Angeles RWCQB adopted during 1994. The current draft of the plan specifies surface water quality objectives that are applicable to Lake Casitas such as color, taste, odor, floating material, suspended material, settleable material, oil and grease, biostimulatory substances, sediment, turbidity, pH, dissolved oxygen, temperature, toxicity, pesticides, chemical constituents, organics, and radioactivity.



5.6 UNITED STATES BUREAU OF RECLAMATION (USBR)

USBR Resource Management Plan

During 2011, the United States Bureau of Reclamation (USBR) completed a final Environmental Impact Statement (EIS) for a Resource Management Plan (RMP) of the Lake Casitas Recreation Area. This area includes the park along with 335 miles of shoreline, approximately 2,700 acres of water surface area, 1,200 acres of park land around the lake and 3,500 acres of open space lands north of the park. The open space lands were purchased by USBR to “provide for water quality in Lake Casitas, along with the preservation and enhancement of public outdoor recreation, fish and wildlife, and the environment”. The USBR has also purchased privately owned parcels within the Casitas Open Space.

The USBR initiated its preparation of the Resource Management Plan in 2002 by conducting public meetings to gather input on the direction of watershed land use. Three scenarios were formulated, and Alternative 2 was selected as the preferred alternative. The RMP was completed by the USBR through the National Environmental Policy Act (NEPA) process in cooperation with other agencies including CMWD, and the record of decision was signed in April 2011. Implementing the decision will result in the continued operation and maintenance of recreational activities by CMWD and execution of a new 25 year agreement between the USBR and CMWD for the long-term management of recreation at Lake Casitas. The USBR will manage the Casitas Open Space Area under a future agreement.

The purpose of the RMP as stated in the final EIS is “to provide a program and set of policy guidelines necessary to encourage orderly use, development, and management of the lake and the surrounding lands”. The RMP proposes recreational uses “that will be compatible with the obligation to operate the lake for storage and delivery of high-quality water”.

According to the RMP, “The objective of Alternative 2 is to enhance current recreational uses and public access at the park in order to increase recreational opportunities, while protecting natural resources with new or modified land and recreation management practices. These activities propose upgrades and improvements for many of the park’s existing facilities and utilities”. Examples include building connectors to the Los Padres National Forest and Ojai Land Conservancy trailheads in the Open Space Lands, and expanding boating support by expanding the marina and boat ramp capacity. Other infrastructure improvements include allowing camping access to the main island, expanding the Water Park, building an amphitheater, and modifying some campsites to be compatible with multiple uses. Park infrastructure improvements are also included in Alternative 2. These include road repairs, relocating and screening the storage area, and improving the park entrance”. All enhancement actions are subject to the limitations of future funding and environmental analysis.

The RMP does not require the implementation of designated recreational usage. Pursuing new recreation options depends on public demand, available funding, and the potential for increased public benefits and use. New uses can be discontinued if unforeseen or immitigable problems occur.



USBR Fire protection and law enforcement

Beginning in 2005, the USBR began coordinating law enforcement with the USFS in the Casitas Open Space Area (Teague Memorial Watershed at that time). These two agencies have a Memorandum of Understanding for USFS to perform both fire protection and law enforcement on federally owned lands. The District still performs monthly reviews of the watershed to assure water quality aspects of the watershed are maintained to standards.

5.7 UNITED STATES FOREST SERVICE (USFS)

The USFS has recently revised its land management plan for the LPNF. Three planning alternatives were presented, and Alternative 2 (Enhancement) was the alternative chosen that best balances natural resource protection and recreation opportunities. The CMWD provided comments regarding controlled burns and the provision of grazing leases in the watershed areas.

USFS Minerals Management

The USFS LPNF Land Management Plan also covers minerals management. The goal of the plan is to “Administer minerals and energy resources to afford commodities for current and future generations commensurate with the need to sustain the long-term health and biological diversity of ecosystems:

- Limit withdrawals from mineral entry in order to maintain opportunities to assess mineral and energy resources.
- Assure long-term access and availability for leasing of oil and gas resources from environmentally suitable lands, for regional, statewide, and national energy needs.
- Use terms and conditions of the operating plan to offset the effects of mining consistent with conservation of habitats for threatened, endangered, or sensitive species.
- Eliminate unapproved and noncompliant minerals operations.
- Facilitate environmentally and culturally sensitive exploration, development, and production of mineral and energy resources on National Forest Service lands open to these activities with the planning and management of other resources.
- Work with California Department of Fish and Game to prohibit suction dredging in areas where needed to protect threatened, endangered, proposed, candidate and sensitive species.
- Work with the USBR to formalize the status of abandoned and idle wells and ancillary facilities and the restoration of the land to natural conditions.
- For approved mining operations within occupied threatened, endangered, proposed, candidate, and sensitive species habitat, riparian habitat, or other areas with species of concern, monitor mining operations as needed to ensure compliance with plans of operation.”



USFS Livestock Grazing

The USFS goal for livestock grazing (from the LPNF Land Management Plan) is for grazing areas to be maintained and remain sustainable and suitable over the long-term.

- The USFS administers each livestock grazing area to standard within a three-year period. Administering a livestock grazing area to standard includes: ensuring compliance with terms and conditions of the permit, allotment management plans, annual operating instructions, biological opinions, and forest plan standards and guides.
- The permittees are required to monitor for compliance with the permit standards and guidelines.
- The permittee is required to submit monitoring and allotment management reports to the national forest officer in charge when requested.



SECTION 6 WATER QUALITY

6.1 ROUTINE INORGANIC CHEMICALS

All surface water sources must be sampled yearly for inorganic chemicals. The chemical analyses of Lake Casitas do not indicate any water quality problems except turbidity following periods of high runoff. The turbidity is removed by the treatment process.

Fluoride is not added at the treatment plant, and the fluoride concentration in Lake Casitas from 2006-2010 averaged 0.3 mg/L; this is well below the 2 mg/L MCL set by the CADPH.

6.2 PHYSICAL QUALITY

CMWD monitors the physical quality (temperature, turbidity, conductivity and pH) of the influent and distribution system on a weekly basis. Odor is monitored at least annually and more frequently as necessary. The physical quality of the reservoir is monitored on an as needed basis. Sometimes the finished water has seasonal taste and odor issues due to algae growth and Lake Turnover. Casitas utilizes the intake structure to find the best quality water during these taste and odor episodes. Casitas also utilizes algaecide treatments, as needed, to reduce algae growth and the associated taste and odor or filtration problems.

6.3 NITRATE AND NITRITE

Lake Casitas is on an annual monitoring schedule for nitrates. Nitrate levels are typically low in the lake because of the protected watershed. The average level in Lake Casitas from 2006-2010 was non-detect.

6.4 RADIOACTIVITY

Four consecutive quarters of gross alpha monitoring were completed by August 2004. Since the average of the four quarters of gross alpha analyses was less than 3 pCi/L (picoCuries/liter), only one sample for the Lake Casitas source is required every nine years.

The average of four quarters of gross alpha results plus 84% of the gross alpha counting error is less than 5 pCi/L, therefore uranium analysis is not required.

Four quarters of Radium 228 sampling were completed for the initial sampling requirements. The sample results were non-detect. Radium 228 is a one time sampling event and no additional monitoring will be required.



6.5 ASBESTOS

All water systems must sample their sources of supply and the distribution system for asbestos at least once every nine years unless a waiver is granted by CADPH. Lake Casitas was analyzed in 2005, for asbestos with non-detectable results. The next monitoring is due February 2014. The aggressive index of the Lake Casitas source is > 11.5 , so monitoring of the distribution system has not been required.

6.6 VOLATILE ORGANIC CHEMICALS

The sampling requirements for volatile organic chemicals (VOCS) are yearly for surface water sources. Casitas has been granted a waiver for surface water monitoring and is required to sample the surface water source for VOCs every three years. The analyses done during 2006-2010 have been non-detect.

6.7 SYNTHETIC ORGANIC CHEMICALS

Monitoring for Casitas Reservoir for synthetic organic chemicals (SOCs) has been waived because of a history of non-detects.

6.8 UNREGULATED CONTAMINANTS MONITORING RULE (UCMR 1 AND 2)

The Safe Drinking Water Act (SDWA) requires water systems to monitor for the presence of unregulated contaminants. The purpose of this regulation is to collect data to support the USEPA decision regarding whether or not to regulate these contaminants.

During 2002 CMWD began UCMR 1 monitoring which included: 4,4-DDE (insecticide), Acetochlor, DCPA mono-acid/di-acid degradate, EPTC, Molinate, Terbacil (herbicides), Nitrobenzene, 2,6-dinitrotoluene, 2,4-dinitrotoluene (explosives), Perchlorate (fuel propellant) and MTBE (fuel octane enhancer) with non-detectable results.

During 2008 CMWD began UCMR 2 monitoring which included: 245-HBB, BDE-100, BDE-153, BDE-47, BDE-99 (flame retardants); dimethoate (insecticide), terbufos sulfone (insecticide degradate) RDX, 1,3-dinitrobenzene and TNT (explosives) with non-detectable results.

6.9 SURFACE WATER TREATMENT RULE

The Surface Water Treatment Rule seeks to prevent waterborne diseases caused by microbial contaminants such as viruses, *Legionella*, and *Giardia*. These disease-causing microbes are present at varying concentrations in most surface waters. The rule requires that water systems filter and disinfect water from surface water sources to reduce the occurrence of unsafe levels of these microbes.

The Lake Casitas source water is subject to all aspects of the Surface Water Treatment Rule (SWTR).



- Filtered water turbidity is to be less than 0.5 NTU in 95 percent of the samples collected.
- Monitoring must be done on at least a four-hour basis.
- The disinfectant concentration entering the distribution system must be at least 0.2 mg/L.
- The disinfectant residual within the distribution system must be “detectable” in at least 95 percent of the monthly monitoring samples.
- Removal and/or inactivation of *Giardia* cysts must be at least 3.0 logs (99.9 percent).
- Removal and/or inactivation of enteric viruses must be at least 4.0 logs (99.99 percent).

CMWD is required to achieve certain performance goals set forth by the CADPH in addition to the SWTR, because high-rate in-line pressure filtration is considered to be an “alternative” filtration technology (the plant can be operated at 12 gpm/sf). CMWD operates under the guidelines of Water Permit No. 04-06-96P.046 issued by CADPH. The filtration facility has been granted a 2-log credit for *Giardia* removal and a 1-log credit for virus removal, thus the facility must achieve 1-log *Giardia* inactivation and 3-log virus inactivation by disinfection. Finished water turbidity is monitored with continuous on-line turbidimeters at each filter, and at the combined filter effluent. The requirements for the pressure filtration plant as outlined in the water permit and described in the 1998 Summary Report.

- The performance turbidity standard is 0.2 NTU or less in 95 percent of the measurements taken each month.
- The turbidity of the filtered water will not exceed 1.0 NTU at any time.
- The turbidity level of the filtered water will not exceed 0.5 NTU for more than eight consecutive hours while the plant is in operation.
- The plant should be operated to achieve an optimum performance turbidity goal of 0.1 NTU or less.
- When any individual filter is placed back into service, the filtered water turbidity of the filter effluent from that filter will not exceed any of the following: (a) 1.0 NTU at any time, (b) 0.5 NTU in at least 90 percent of the interruption events during any consecutive 12 month period, and (c) 0.2 NTU after the filter has been in operation for 4 hours.
- Water delivered to the distribution system will contain a disinfectant residual of at least 0.2 mg/L based on the four-hour or continuous readings but will be enough to meet CT requirements continuously.
- The pressure filter’s filtration rate will not exceed 12.0 gpm/sf, and all available filters will be utilized when any filter exceeds 6 gpm/sf.
- Optimum coagulation will be maintained at all times.

SWTR Turbidity Requirements

CMWD has consistently met the aforementioned requirements during 2006-2011. On occasion, there were elevated turbidities as a result of power interruptions, chemical feed deviations, higher plant flow rates, or limited filters in service during repairs. These events did not cause a violation of the prescribed performance standards.



SWTR Disinfection Requirements

Free chlorine is applied upstream of the pressure filters at a dose of approximately 3.0-5.0 mg/L in order to meet the chlorine demand. The pre-filter chlorine dose also acts as a filter aid. A chlorine dose of approximately 1.0-3.0 mg/L is applied after filtration. The approximate range of the chlorine residual in the water leaving the plant is 4.0–4.7 mg/L. In 2003 CMWD changed the distribution system disinfectant from free chlorine to chloramines in order to reduce the levels of disinfection by-products. To accomplish this, ammonia is added at a 4.5:1 chlorine to ammonia ratio after CT (concentration of free chlorine concentration multiplied by contact time) requirements are met. To prevent nitrification, CMWD has installed mixers in the reservoirs and flushes the distribution system on a regular basis. The main reservoirs are monitored on a monthly basis for possible nitrification. There have been no nitrification events during 2006-2011.

CT values are calculated daily and logged into a monthly monitoring report. CT ratios for the plant are typically well above 1.0, thus the plant is currently achieving more disinfection than is required by the current regulations.

6.10 INTERIM ENHANCED SURFACE WATER TREATMENT RULE (IESWTR)

This IESWTR amends the Surface Water Treatment Rule to strengthen microbial protection. This regulation was adopted and implemented during 2002. The rule includes treatment requirements for *Cryptosporidium* while continuing to meet existing requirements for *Giardia* and viruses.

Simultaneous compliance with the Stage 1 Disinfection By-Product Rule is required.

This rule, with more stringent turbidity performance criteria and individual filter monitoring requirements, is designed to optimize treatment reliability and to enhance physical removal efficiencies to minimize the *Cryptosporidium* levels in finished water. Turbidity monitoring is required for combined filter effluent at least every four hours, and continuous monitoring is required for individual filters. In addition, this rule includes disinfection profiling and benchmarking to assure continued levels of microbial protection while facilities take the necessary steps to comply with new DBP standards. This rule requires water systems to conduct watershed sanitary surveys.

6.11 LONG TERM 2 ENHANCED SURFACE WATER TREATMENT RULE (LT2ESWTR)

The purpose of the LT2 rule is to reduce illnesses linked with *Cryptosporidium* (and other microorganisms) by requiring high risk systems to add additional treatment processes. This rule also contains provisions to reduce risks from uncovered finished water reservoirs (CMWD finished water reservoirs are all covered) and to ensure that water systems maintain microbial protection when trying to meet the requirements of the D/DBPR.

The LT2 rule established categories for risk classification based on two full years of data collection of *E.coli*, turbidity, and *Cryptosporidium*. Water systems with poor source water quality were required to increase *Cryptosporidium* removal/inactivation. Watershed protection, pretreatment methods, and



improved treatment processes were the options available for achieving the increased levels of removal or disinfection.

During 2006 CMWD submitted a grandfathered *Cryptosporidium* data package to CADPH, and a letter of acceptance was sent to CMWD during January of 2007. CMWD qualified for the lowest risk category (Bin 1), therefore no additional treatment processes are required. CMWD continues to monitor *Cryptosporidium* and *Giardia*, and has had very infrequent detections because of successful watershed protection policies. CMWD will be required to monitor again in 2015, therefore it is important to continue appropriate watershed protection measures.

6.12 LEAD AND COPPER RULE

Lead and copper enter drinking water primarily through plumbing materials. In 1991 the EPA published the Lead and Copper Rule. The rule requires monitoring drinking water through a customer tap sampling program. If lead concentrations exceed action levels of 15 ug/L for lead or 1.3 mg/L for copper in more than 10% of customer taps sampled, actions must be undertaken to control corrosion.

Prior to 2006, CMWD exceeded the action level for copper. From June 2004- July 2008 CMWD began a phased corrosion control study using a 30% Ortho and 70% Poly Phosphate blend. The study resulted in a corrosion control monitoring plan which specifies the orthophosphate levels necessary in the distribution system for optimal corrosion control levels. Subsequent copper and lead sample sets have been below the action level, proving the effectiveness of the addition of ortho/poly phosphate for corrosion control.

During 2009 CMWD received a Water Permit Amendment from CADPH for the addition of orthophosphate/polyphosphate as a treatment chemical for corrosion control in order to comply with the copper action level at consumers' taps.

CMWD has never exceeded the Action Level for lead.

6.13 TOTAL COLIFORM RULE

The Total Coliform Rule (TCR) requires testing and sets a Maximum Contamination Level (MCL) for the presence of total coliform bacteria in drinking water. The presence of coliforms indicates that there may be disease-causing agents in the water such as bacteria, parasites, and viruses. All CMWD compliance samples have been negative for the presence of total coliforms and *E. coli* in the last five years. The sample siting plan is reviewed annually by CMWD and was updated in 2006.

6.14 CONSUMER CONFIDENCE REPORT (CCR)

The preparation and distribution of the CCR is required by the State of California. CMWD distributes its annual CCR to the customers by July 1 of each year.



6.15 DISINFECTION BY-PRODUCTS

Disinfectants/Disinfection By-Products Rule – Stage 1

CMWD changed to chloramines during November through December of 2002, and has since continuously complied with the Stage 1 D/DBP MCL of 80 ug/L (TTHM) and 60 ug/L (HAA5). Also, sampling results for the Stage 1 D/DBP Rule Maximum Residual Disinfectant Level (MRDL) for free chlorine and chloramine residuals, have been below the maximum residual disinfectant level of 4.0 mg/L.

CMWD has complied with the Stage 1 D/DBP MCL of 80 ug/L (TTHM) and 60 ug/L (HAA5) continuously since changing the distribution system disinfectant from chlorine to chloramines in 2002. Also, sampling results for the Stage 1 Maximum Residual Disinfectant Level (MRDL) for chloramine residuals have been below the 4.0 mg/L limit.

Disinfectants/Disinfection By-Products Rule - Stage 2

USEPA published the Stage 2 DBPR during fall of 2005. This rule is designed to reduce disinfection by-products occurrence peaks in the distribution system. An Initial Distribution System Evaluation (IDSE) was required for the selection of new compliance monitoring sample points that accurately represent potentially high TTHM/HAA levels. CMWD completed the required year of bi-monthly IDSE monitoring and submitted the report to CADPH during 2008. A letter of approval from CADPH was received by CMWD during 2009. Stage 2 sampling begins during 2012, and the results from the IDSE indicate CMWD will meet the new requirement of calculating running annual averages at each individual sample site. The averages must be less than 80 ug/L for TTHMs, and less than 60 ug/L for HAA5s.

See Table 3 for monitoring results for TTHMs and HAA5s since 2006.



TABLE 3- Monitoring Results for TTHM and HAA5

Sampling Date	TTHM ug/L Running Annual Average	HAA5 ug/L Running Annual Average
February 2006	52.5	33
May 2006	52.8	36
August 2006	50.5	39
November 2006	47.5	37
February 2007	46.2	37
May 2007	42.0	29
August 2007	39.5	24
November 2007	35.5	24
February 2008	36.2	24
May 2008	35.4	24
August 2008	35.3	21
November 2008	36.9	14
February 2009	33.9	8
May 2009	33.0	11
August 2009	32.5	14
November 2009	31.1	14
February 2010	32.0	18
May 2010	31.9	19
August 2010	31.3	19
November 2010	32.7	23

6.16 ARSENIC

Arsenic is a naturally occurring substance that can be found rock formations, soil, surface water, and groundwater. The USEPA finalized the new drinking water standard at 10ug/L for arsenic in September of 2001. California's arsenic MCL of 10µg/L became effective in 2008. From 2006-2011, the arsenic levels in Lake Casitas have ranged from non-detect (the detection limit is 2 ug/L) to 2.0 ug/L. CMWD is in compliance with the federal and state arsenic MCLs.



6.17 RADON

The USEPA proposal for the radon regulation may be as low as 300 pCi/L, depending on whether the State adopts a program to reduce radon in the air (indoors). If the state adopts the air reduction program the level may be as high as 4000 pCi/L. The radon rule was scheduled to be finalized in 2001, but it was sent back to the USEPA for review and possible revision, and is still in the process of being reviewed.

The radon rule is not expected to impact CMWD. Levels in the lake water have been non-detectable. Levels in Mira Monte Well have been detectable, but that water is blended at a ratio that makes levels much lower than the proposed more stringent MCL.

6.18 CHROMIUM VI

On July 27, 2011, the California Office of Environmental Health Hazard Assessment (OEHHA) established a public health goal (PHG) for chromium VI (hexavalent chromium) of 0.02 µg/L. The PHG will contribute to CADPH's development of a primary drinking water standard MCL that is specific for chromium VI. PHGs are contaminant concentrations that do not pose a significant risk to health. CADPH is required to establish the MCL at a level as close the PHG as is technically and economically feasible. During 1999, many water systems began sampling for chromium VI and CADPH made the sampling required for all vulnerable systems. The sampling results from Lake Casitas were non-detect for chromium VI.

6.19 PERCHLORATE

Perchlorate is used as a propellant for rockets, missiles, and fireworks; and for the production of matches, flares, pyrotechnics, ordnance, and explosives. CADPH adopted the current perchlorate MCL of 6 ug/L during 2007. Lake Casitas has been protected from all of the above sources of perchlorate, and annual monitoring results have been non-detect.

6.20 SUPPLEMENTARY WATERSHED SAMPLING

CMWD samples the watershed for total coliforms and *E. coli* on a monthly basis. Sample stations include six locations from Lake Casitas, four locations from Santa Ana Creek, one location from the Ventura River, and one location from Coyote Creek. Prior to 2008 CMWD sampled for total and fecal coliforms using the MTF method. During 2008 CMWD changed to the enzyme substrate test for total coliforms and *E. Coli*.

See table 4 for total coliform and *E. coli* monitoring results from 2008-2010



Table 4- Total Coliform and *E. coli* Monitoring Results

Year	Total Coliform mg/L			<i>E. coli</i> mg/L		
	Max	Min	Avg	Max	Min	Avg
2008	>2420	10	721	2	0	0
2009	>2420	8	25	26	0	2
2010	3106	0	1048	68	0	2

Glyphosate

The Ventura County *Arundo* Task force has been involved in the removal of *Arundo donax* from the Ventura River watershed by using glyphosate. The Watershed Protection District has been monitoring for glyphosate during this process. Results of the glyphosate monitoring have been non-detect.

Tributary Sampling

CMWD has collected initial baseline sampling data of the Lake Casitas tributaries for inorganic compounds, nitrogen, phosphorous and turbidity. The goal is to establish a relationship between Ventura River flow rate and possible contaminants, and extrapolate possible water quality impacts if the silt-laden water is diverted into Lake Casitas when the Matilija Dam is either lowered or removed.



SECTION 7 CONCLUSIONS AND RECOMMENDATIONS:

7.1 CONCLUSIONS:

1. The Lake Casitas Watershed continues to not be impacted by public or private waste disposal systems.
2. The Casitas Lake Recreation Area continues to operate in such a manner that it poses no threat to the quality of the water supply.
3. Areas on the watershed where there is grazing or penning of animals and livestock continue to be monitored on a regular basis.
4. Mining, oil drilling, and logging pose no threat to the safety of the water supply at this time.
5. Body contact sports continue to be prohibited at Lake Casitas.
6. The limited access to the Lake Casitas Watershed by the United States Forest Service effectively helps prevent illegal dumping of hazardous and solid waste on the watershed.
7. CMWD has provided finished water in compliance with all of the current regulations.
8. The use of pesticides and herbicides on the Lake Casitas Watershed is minimal.
9. Construction projects on the watershed must be reviewed by the Ventura County Land Development Department. Best management practices to prevent erosion are included as part of the permit process.
10. During 2002 CMWD changed the distribution system disinfection method from free chlorine to chloramines in order to meet the Stage-1 regulations. The monitoring results of the IDSE indicate that CMWD will comply with the Stage 2 rule.
11. CMWD completed the corrosion control study and has received the permit amendment. The permanent corrosion control facility is in the capital budget for 2011-2012.
12. During 2006 CMWD submitted a grandfathered *Cryptosporidium* data package to CADPH and a letter of acceptance was sent during January of 2007. CMWD qualified for the lowest risk category (Bin 1), therefore no additional treatment processes are required. CMWD will be required to monitor again in 2015, therefore it is important to continue current watershed protection measures in order to avoid costly treatment method additions.



13. CMWD completed the IDSE monitoring and submitted a report to CADPH during 2008. A letter of approval from CADPH was received by CMWD during 2009. Stage 2 sampling begins during 2012, and the results from the IDSE indicate CMWD will meet the Stage-2 D/DBPR requirements.

14. CMWD has made progress with watershed protection through the removal of homes by the Bureau of Reclamation in coordination with the US Forest Service.

7.2 RECOMMENDATIONS

1. Routinely check the Ventura County Environmental Health website for private waste disposal systems permits in order to keep track of development in watershed area.
2. Routinely check available regulatory websites for permits or information on hazardous materials, hazardous wastes, and leaking underground storage tanks in the watershed area.
3. Continue to be monitor areas on the watershed where there is grazing or penning of animals and livestock. Continue to track progress of the BMPs implemented by the property owner with the Environmental Quality Incentives Program cost share from the National Resource Conservation Service.
4. Routinely request and analyze a Pesticide Use Report from the County Agricultural Commission on pesticide/herbicide use in watershed.
5. Oppose mining leases in the watershed. Continue to encourage the US Forest Service to keep mining leases out of Casitas Reservoir Watershed area, and notify to CMWD if there is any interest in mining.
6. Determine the jurisdiction of building/grading permits of private landholdings within USFS lands.
7. Continue to monitor and participate in the decommissioning process of Matilija Dam. Continue to monitor watershed for baseline levels of contaminants that could be harmful to the water supply.
9. Continue dialogue with Los Angeles RWQCB regarding the notice of violation of waste discharge requirements at the USFS station near the lake.



REFERENCES

Document References

United States Department of the Interior Bureau of Reclamation. 2010. Lake Casitas Final Resource Management Plan/Environmental Impact Statement

Tim Gannon & Associates. 1995. Casitas Municipal Water District Watershed Sanitary Survey

Casitas Municipal Water District. 2001. Sanitary Survey Update

Casitas Municipal Water District. 2006. Sanitary Survey Update

United States Department of Agriculture Forest Service. 2005. Revised Land Management Plans and Final Environmental Impact Statement

CMWD 2010 Urban Water Management Plan

2010 CADPH Inspection Report

USDA Revised Land Management Plans

CMWD Annual Hydrology Reports 2006-2010

(1) Historical Temperatures at CMWD Casitas Reservoir Recreation Area Weather Station

(2) Historical Temperatures at CMWD Casitas Dam Weather Station

(3) Historical Rainfall at Lake Casitas Recreation Area

(4) Historical Rainfall Casitas Municipal Water District

(5) Casitas Reservoir Inventory Annual Summary

(6) Robles-Casitas Canal Monthly Diversions

Website References

CMWD Ordinance No. 10-01 An Ordinance of the Casitas Municipal Water District Establishing Rules and Regulations for the Public use of the Recreation Area

(<http://drivecms.com/uploads/casitaswater.org/267897550Ord%2010-01%20Recreation%20Rules%20and%20Regs.pdf>)

CMWD Application for Filming Commercials at LCRA

(<http://www.drivecms.com/uploads/casitaswater.org/211628082FILMAPPLICATION2010.pdf>)

CMWD Resolution No. 08-08 Resolution of the Board of Directors of CMWD limiting access to Lake Casitas in order to Control Invasive Species

(<http://www.drivecms.com/uploads/casitaswater.org/FinalQuaggaResolution.pdf>)



Ventura County Environmental Health Department. 2011
(http://www.ventura.org/rma/envhealth/EHD_FACILITY_LISTS/liquid_waste_sites.pdf)

Ventura County Environmental Health Department. 2011
(http://www.ventura.org/rma/envhealth/programs/tech_serv/isds/index.html)

Ventura County Watershed Protection District
(http://portal.countyofventura.org/portal/page/portal/PUBLIC_WORKS/Watershed_Protection_District)

Ventura County Agricultural Commissioner
(<http://portal.countyofventura.org/portal/page/portal/AgCommissioner>)

USEPA
(<http://water.epa.gov/drink/>)

California Department of Public Health
(<http://www.cdph.ca.gov/programs/Pages/DWP.aspx>)

State Water Resources Control Board
(<http://www.swrcb.ca.gov/>)

State Water Resources Control Board Los Angeles Region
(<http://www.swrcb.ca.gov/rwqcb4/>)

Personal Communications

Bruce Smith, Ventura Co Planning Division (805) 654-2497

Edelynn Ledoux , County of Ventura Office of Agriculture Commissioner (805) 933-2926 x 247

Darrell Siegrist, County of Ventura EHD (805) 648-9248

Bill Nash, Office of Public Information Ventura Co Fire Dept. (805) 389-9746

Evaline Mutkowska, County of Ventura WPD (805) 645-1382

Dr Eric Wu, SRWQCB (213) 576-6683

Jonathon Yonni Schwartz, USFS, Ojai CA (805) 646-4348

Irwin Fox Fernandez USFS, Ojai CA (805) 646-4348



Casitas Municipal Water District

Monthly Cost Analysis

2011/2012



10/06/2011

	<u>Marzula & Marzula</u> <i>11-5-21-5049-12</i>	<u>Operation of Robles</u> <i>11-5-??-????-14</i>	<u>Fisheries</u> <i>11-5-28-50??-??</i>	<u>Project Name Fish Passage</u>	<u>Cost of the Fish Passage</u>
2003/2004	0.00	132,143.20	6,066.93		
2004/2005	0.00	298,006.35	39,124.63		8,079,888.06
2005/2006	274,270.75	144,052.92	93,406.52		0.00
2006/2007	194,409.73	110,707.78	188,651.75		114,790.04
2007/2008	21,111.90	117,299.80	272,644.56		0.00
2008/2009	1,207.75	88,201.00	307,739.00		0.00
2009/2010	216,797.47	124,874.54	342,756.94		0.00
2010/2011	<u>169,932.80</u>	<u>148,506.23</u>	<u>373,535.60</u>		
Expenditures					
July	691.67	5,316.70	21,434.00		
August	0.00	2,986.95	24,849.61		
September	0.00	14,252.92	25,287.85		
October					
November					
December					
January					
Feburary					
March				Less: Grants	
April				CA Coastal Conservancy	-1,750,000.00
May				CA Dept of Fish & Game	-1,500,000.00
June				CA Dept of Fish & Game	-1,000,000.00
				Pacific States Marine	-8,988.86
				(Timber Debris Fence)	
				Pacific States Marine	-18,980.00
				(Vaki Shroud)	
Total Cost YTD	<u>691.67</u>	<u>22,556.57</u>	<u>71,571.46</u>	Total Cost TD	<u>8,194,678.10</u>
				Less: Grant Funding	<u>-4,277,968.86</u>
Total Project Cost	<u>878,422.07</u>	<u>1,186,348.39</u>	<u>1,695,497.39</u>	Total Project Cost	<u>3,916,709.24</u>

Total: Operation of Robles, Fisheries and Fish Passage **6,798,555.02**

CASITAS MUNICIPAL WATER DISTRICT
LAKE CASITAS RECREATION AREA

DATE: October 4, 2011
 TO: Steve Wickstrum, General Manager
 FROM: Carol Belser, Park Services Manager
 SUBJECT: Recreation Area Monthly Report August 2011

Visitation Numbers

The following is a comparison of visitations for August 2011:

	August 2010	August 2011	July 2011
Visitor Days	97,176	86,528	128,936
Camps	9,002	8,285	11,244
Cars	24,294	21,632	32,234
Boats	349	427	614
Kayaks & Canoes	7	9	10

Fiscal Year to Date Visitation	
2010/2011	211,932
2011/2012	215,464
% Change	1.667

Activities and Events

Astronomy Nights were held August 6 with over 100 in attendance and August 13 with over 20 participants. The Jr. Explorer program was held August 20 with 150 and August 21 with 40. The Ojai Rotary and Red Hat Ladies Club participated in a talk at Santa Ana Launch Ramp on August 11 where 25 attended. The movie The Great Outdoors was shown for free on August 27, about 20 -25 people were in attendance.

Boating

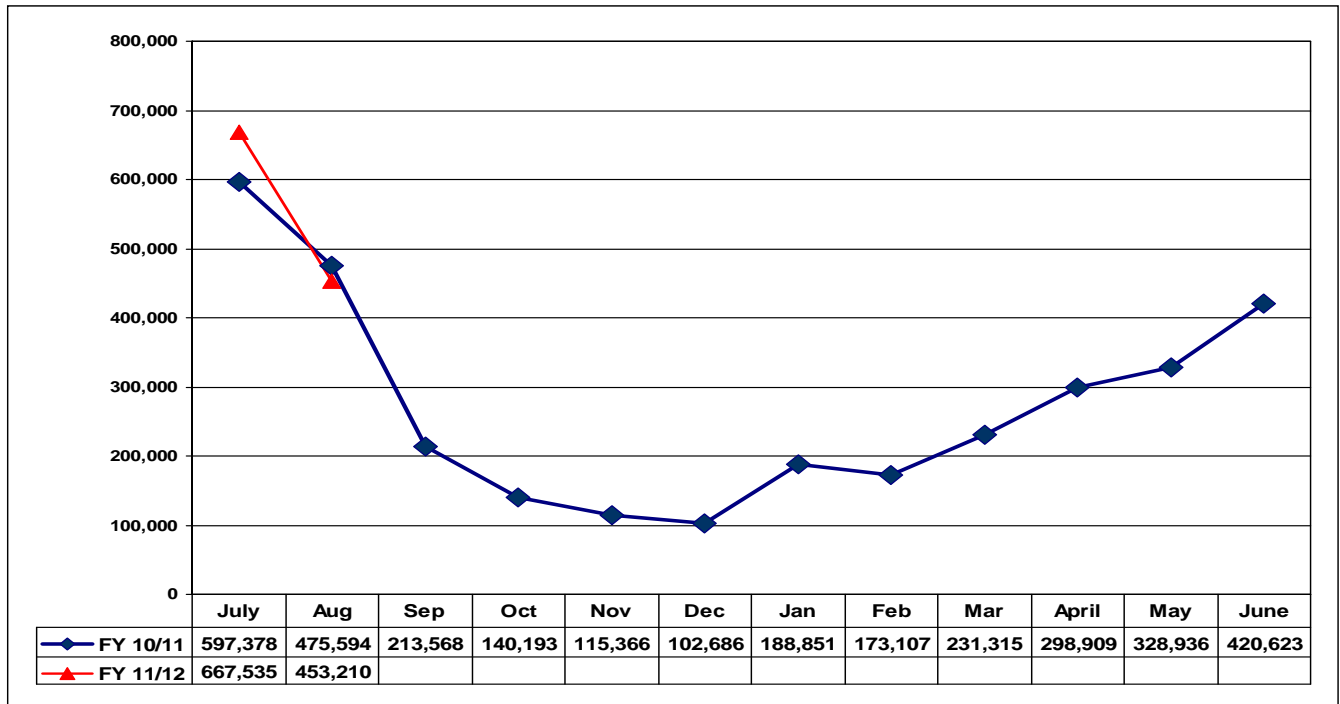
There were 14 cables sold for new inspections, 10 vessel re-inspections, and 679 boats were retagged. Twelve boats failed the first inspection. Shoreline fishing at night was held August 11, 12 and 13. Moonlight Fishing was held August 20 and 24 boats participated. Angler's Choice held a night fishing tournament on August 13 and 20 boats participated.

PSO and APSO staff are continuing to collect data for the creel survey and an opinion survey the first week of each month. The data collected is analyzed by Scott Lewis and will be used in the Fisheries Management Plan.

Revenue Reporting

The figures below illustrate all Lake Casitas Recreation Area's revenue collected in the respective month (operations, concessions, Water Adventure, etc.) per the District's Financial Summary generated by the Finance Manager.

LCRA TOTAL REVENUE



Incidents

Reportable incidents that occurred in the Recreation Area involving calls for emergency service include:

Serious dog bite on August 4, report of a handbag theft at the Water Adventure on August 4, DUI arrest on August 6, an unresponsive minor (possibly alcohol related) August 6, noise complaint in Campground G August 7, bicycle accident August 9, Cortez Patrol Boat vandalism August 10, erratic behavior/possible mental illness of customer August 10, Pac Angler Patrol Boat vandalism August 18, possible diabetic emergency August 19, possible heat exhaustion August 24, an individual collapsed at the Park Store August 24, possible stolen vehicle August 25, fall down cliff at Campground O August 27, and a diabetic emergency August 27.

Other notable incidents include:

A sunken vessel on August 14. The vessel’s exact location remains unknown. Our sonar shows an object in 149 feet of water which may be the vessel. Staff continue to monitor the area for signs of contamination, and none has been identified to date.

The Water Adventure had to close early on August 22 due to water clarity issues probably related to extreme air temperature and excessive sunscreen lotion. Body contact in the lake totaled 24, with three citations issued. This figure is down considerably from last month due in part to increased patrol of Deep Cat and signage placement at O Campground.

CASITAS MUNICIPAL WATER DISTRICT
Inter-Office Memorandum

DATE: October 6, 2011

TO: Board of Directors

FROM: General Manager, Steve Wickstrum

Re: Ojai FLOW request of the District to acquire the Golden State Water Company's Ojai Water System

RECOMMENDATION:

It is recommended that the Board of Directors receive the information that pertains to the Ojai FLOW request of the District to acquire the Golden State Water Company's Ojai water system.

INFORMATIONAL ITEMS:

1. Customers of Golden State Water Company, Ojai CA, April 13, 2011, letter by Richard H. Hajas.
2. "An Analysis of the Financial Feasibility of Providing Lower Cost Water Service to the Ojai Service Area of Golden State Water Company". March 20, 2011. Richard H. Hajas.
3. "Stop the Golden State Water Rip-off!" March 2011. Ojai FLOW.
4. Petition to Replace Golden State Water Company with Casitas Municipal Water District as the Ojai Area Water Purveyor. Ojai FLOW.
5. Submittal of Petitions Collected by Ojai Flow. May 23, 2011. Ojai FLOW.
6. "Ojai FLOW Newsletter ---- Call to Action". July 23, 2011. Ojai FLOW.
7. Ordinance No. 382. City of Ojai's franchise agreement with Southern California Water Company. May 1967. City of Ojai.
8. City of Ojai Administrative Report and Resolution No. 11-22 Supporting the Efforts of Ojai FLOW (Friends of Locally Owned Water). April 26, 2011. Steve McClary.
9. Resolution #10-11-36 in Support of the Efforts of Ojai FLOW (Friends of Locally Owned Water). May 10, 2011. Board of Education, Ojai Unified School District.
10. Ojai FLOW Email on Water Bill of Bob Boyd. Provided by Ojai FLOW. July 25, 2011.
11. Letter to the California Public Utilities Commission, Public Advisor's Office. "Protest of Golden State Water Company July 21, 2011 Application No. 11-07-XXX for Ojai CA. Service Area". July 30, 2011. Ojai FLOW.
12. "Presentation to Casitas Municipal Water District". August 17, 2011. Golden State Water Company.

13. Joe A. Conner, Biographical Information. Baker, Donelson, Bearman, Caldwell & Berkowitz, PC.
14. Letter to the California Public Utilities Commission, Public Advisor's Office. "Protest of Golden State Water Company July 21, 2011 Application No. 11-07-XXX for Ojai CA. Service Area". September 8, 2011. Supervisor Steve Bennett.
15. Reply Brief of the Division of Ratepayer Advocates. Before the Public Utilities Commission of the State of California. Application 10-01-009. Filed 08-13-10. Peter V. Allen, Staff Counsel.
16. Letter to the Ojai City Council from Golden State Water Company, Ken Petersen, P.E., Coastal District Manager. September 13, 2011.
17. Letter to the Santa Cruz County Board of Supervisors. "California American Water - - Felton Water Facility". April 18, 2005. David W. Skinner.
18. California American Water Company, Felton District Water System. April 26, 2005 Resolution Hearing. Response to April 18, 2005, Letter from David W. Skinner. Eminent domain issues. Herman H. Fitzgerald.
19. Apple Valley Blue Ribbon Water Committee Agenda, August 18, 2011, and Minutes from the June 13, 2011 meeting. Town of Apple Valley.
20. "Update of Feasibility Analysis of Acquisition of the Apple Valley Ranchos Water System. Final Report". July 2011. Bartle Wells Associates.
21. "Can the city take over the water system from Cal Water?" News Article by Doug Hoagland. Selma Enterprise. April 27, 2011.
22. "Eminent Domain, Be Aware of the Facts." American Water.
23. California American Water letter, December 7, 2006, Larkfield-Wikiup Water System acquisition by Sonoma county Water District.
24. Water Solutions. "Case 19: The Fight for Public Water In Felton, California". Our Water Commons. 2010 Forum Organizing Project/On the Commons.

Ojai FLOW - Friends of locally owned water

April 13, 2011

Board of Directors
Casitas Municipal Water District
1055 N. Ventura Ave.
Oak View, CA 93022

RE: Customers of Golden State Water Company, Ojai CA

Members of the Board:

The residents of Ojai, served by Golden State Water Company (Golden State), have endured rate increases of over 75% since 2008 on top of rates already well above the surrounding communities. We now collectively pay Golden State over \$5.0 million per year for water service, service for which Casitas charges only \$1.89 million dollars.

Our pleas to the PUC have gone unanswered. The PUC generally regards the customers of the utility as subordinate to the PUC's primary concern, the welfare of the utilities stockholders. The Golden State stockholders are doing quite well. We, the customers, unfortunately are not. Many of the residents of Ojai live on very small lots and use very little water. An Ojai resident with a 5/8 inch meter using 13 CCF per month will pay bi-monthly water bills of over \$150.00.

In an effort to find an escape from this financial trap in which we find ourselves, a group of Ojai residents volunteered to investigate any alternatives we may have. After nearly 10 months of effort we have developed a plan that we believe will ultimately reduce the cost of water to Ojai and offer Casitas a significant increase in overall customer base, which long term will benefit the entire Casitas district.

Our plan is based on an economic feasibility study developed from Golden State and PUC's documents. The study addresses both the financial feasibility of replacing Golden State with Casitas as the areas water purveyor and the potential impacts to Casitas. The report's conclusion is that it is feasible to replace Golden State with Casitas, and that Casitas will suffer no adverse impacts. In fact Casitas will ultimately benefit from the new customer base. The report is attached for your consideration.

Our next steps are to circulate a petition among the registered voters of the Ojai area with service from Golden State. The petition will request your Board to form a "revenue

Ojai FLOW - Friends of locally owned water

April 13, 2011

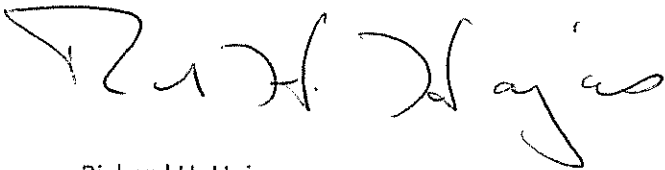
improvement district" within the Golden State service area and proceed with holding an election to consider the following;

- A. Issuing revenue bonds, not to exceed **\$33,000,000**, for the purposes of purchasing the *Golden State* water system and making needed improvements to that water system.
- B. In addition to the standard *Casitas* rates for like customers apply a water surcharge of **\$2.50** per hundred cubic feet of water on all water served in the improvement district for a period not to exceed **30 years** for the purposes of serving the debt and funding needed improvements.
- C. Replace *Golden State* with *Casitas* as the Ojai area water purveyor.

A copy of the petition is attached.

Our intent is to secure sufficient signatures to demonstrate to your Board the communities overwhelming support for these actions. We are hopeful your Board will ultimately accept our petition for help and welcome us as customers of Casitas.

Sincerely,



Richard H. Hajas
524 Del Oro Dr.
Ojai, CA 93023

An Analysis of the Financial Feasibility of Providing Lower Cost Water Service to the Ojai Service Area of Golden State Water Company

Sandy

RHH

March 20, 2011

Table Of Contents

	Page
Summary	3
Issue and Introduction	5
Definitions	6
Background on Casitas	7
Background on Golden State	8
Water Rates	9
Cost of Acquisition	13
Impacts to Current Casitas Rate Payers	17
Affordability of Acquisition	20
Alternative Funding Methods	21
Projected Future Costs of Water Service	26
Margin Of Error	28
Conclusion	30
Acknowledgments	31
References	32
Exhibits	33

I. Summary

Golden State Water Company (GOLDEN STATE) provides water service to the residents of Ojai and has historically charged higher rates than the water service agencies in the surrounding area. In 2008 GOLDEN STATE increased its water rates by 34.9%. GOLDEN STATE now claims that the water system is in poor condition requiring a large capital investment over the next 20 years. GOLDEN STATE intends to pay for a \$27.8 million capital improvement plan through even higher water rates. In January 2011 GOLDEN STATE implemented another rate increase of 26.2%. The issue evaluated in this analysis is can water service of equal or better quality than GOLDEN STATE be provided to the community of Ojai at a lower cost.

GOLDEN STATE's service area is all within the boundaries of the Casitas Municipal Water District (CASITAS). The residents of Ojai have historically paid property taxes to CASITAS and have indirectly purchased supplemental CASITAS water through GOLDEN STATE. CASITAS has historically operated a much larger water system than GOLDEN STATE and CASITAS's water rates are less than one-half GOLDEN STATE rates. If CASITAS water rates are applied to water sales in GOLDEN STATE's Ojai service area the residents would collectively save \$3.14 million per year, based on the current rates of both organizations.

The replacement of GOLDEN STATE with CASITAS would require the purchase of GOLDEN STATE's water system through a negotiated sale or eminent domain. The estimated cost of acquisition is \$17.0 to \$25.0 million including legal expenses. The range is driven by how long acquisition will take and how much the net value of GOLDEN STATE's water system changes as it implements capital improvements. Capital will be needed for improvements to the Ojai water system regardless of which organization operates the system. The estimated capital needed to complete the GOLDEN STATE master plan by CASITAS, following acquisition, ranges from \$15.0 to \$24.0 million. As GOLDEN STATE implements the master plan less capital will be required by CASITAS.

The Ojai water service area can afford to spend as much as \$3.14 million dollars per year, the difference between GOLDEN STATE rates and CASITAS, to acquire GOLDEN STATE. The \$3.14 million dollars per year can be used to service the debt on various types of municipal bonds to raise needed capital. The debt service on the bonds can be paid through property taxes or through a surcharge on water use. Although repayment through property taxes offers some advantages it is very difficult to equitably allocate the costs on property. The alternative of applying a surcharge seems the most equitable

method of financing because the burden of debt repayment will be directly related to water consumption. Those using little water will pay less and efforts to conserve water will be rewarded.

The surcharge also offers flexibility in financing the acquisition. A combination of debt to meet immediate capital requirements, along with a long-term revenue stream to finance “pay-as-you-go” capital improvements, offers time to evaluate the water system’s needs and build financial reserves to address future capital requirements. In the worst case scenario Revenue Bonds for as much as \$26.0 million would finance the purchase of GOLDEN STATE, reimburse CASITAS for the legal costs of acquisition, and provide \$1.0 million for immediate system integration measures. A surcharge of \$2.50 per CCF of water would cover the debt service on the \$26.0 million bonds and provide a revenue stream of \$750,000 to \$1,300,000 per year for up to 30 years to fund a “pay-as-you-go” capital improvement plan.

A surcharge of \$2.50 per CCF on all water use would finance the acquisition of GOLDEN STATE and provide an immediate savings of \$1.0 million per year to the Ojai residents. The average or “typical customer” in the Ojai service area has a 5/8 inch meter and uses 26 CCF of water very two months. The “typical customer’s” bimonthly water bill in 2011 from GOLDEN STATE is \$151.14. With the same service from CASITAS - including a \$2.50 per CCF surcharge - the “typical customer’s” bill would be \$127.50, an annual savings of \$141.00. It is projected that the savings will be \$1500.00 per year by 2025.

The acquisition of GOLDEN STATE would not burden CASITAS’s current ratepayers with an unfunded liability. There would be no net increase in water demand because the Ojai service area uses local groundwater and has historically used supplemental water from Casitas. The acquisition of GOLDEN STATE would increase CASITAS’s revenues beyond the cost to operate the Ojai system. Capital to address the majority of unresolved deficiencies in the Ojai system infrastructure are included in the funds to be collected through the water surcharge. Within approximately 18-20 years operating revenues from the Ojai service area would become an asset that will reduce the financial burden on all CASITAS’s current rate payers.

It is feasible to provide water service of equal or better quality than GOLDEN STATE to the community of Ojai at a lower cost. The Ojai service area can generate a savings of \$3.14 million per year by the acquisition of the GOLDEN STATE water system. The potential saving is more than adequate to fund the up-front capital requirements of acquisition through the sale of Revenue Bonds and to generate a long-term revenue stream to address system improvements. With implementation of a \$2.50 per CCF surcharge on water use Ojai residents will realize an initial annual savings of nearly \$1.0 million and a projected savings of \$3.48 million per year by 2025.

The following are the details of this analysis.

II. ISSUE

The residents of the City of Ojai are provided water service by Golden State Water Company (GOLDEN STATE). In 2008 GOLDEN STATE increased its rates by 34.9%. In October 2010 GOLDEN STATE again increased its rates by approximately 4.8% (PUC Sept. 2010). On November 16, 2010 GOLDEN STATE was granted approval by the California Public Utilities Commission (PUC) to increase its rates by 26.2% in 2011 (PUC November 2010). GOLDEN STATE also applied for an increase in 2012 (GOLDEN STATE January 2010). The rationale for these increases is GOLDEN STATE's claim that the water system is in poor condition requiring extensive capital investment. GOLDEN STATE's 2010 report to the PUC describes the need for \$27.7 million in capital projects over the next 20 years (GOLDEN STATE Aug 2010). GOLDEN STATE will seek to recover this capital, and a rate of return of 8% or more, from on-going increases in water rates. The residents of Ojai already pay more than twice as much for water as the surrounding communities.

Can water service of equal or better quality than GOLDEN STATE be provided to the community of Ojai at a lower cost?

III. INTRODUCTION

This report is intended to evaluate the feasibility of Casitas Municipal Water District (CASITAS) acquiring, operating, and maintaining the water service system in Ojai; and providing that service at a lower cost than GOLDEN STATE. The focus of this analysis is on the financial feasibility. The legal feasibility is not evaluated here and will require review by those experts in the field. The quality of GOLDEN STATE service is not evaluated in this analysis. For the purpose of this discussion GOLDEN STATE and CASITAS are considered equally capable of providing water service to the Ojai area.

Although several types of organizations were considered as candidates to compete with GOLDEN STATE in this evaluation CASITAS was selected because it has an existing and a historical comparable water rate structure, it geographically and politically encompasses the entire GOLDEN STATE service area, and CASITAS has the resources available to take on the operation of the GOLDEN STATE system.

This report has been prepared independently by Richard H. Hajas, a resident of Ojai, and is not associated with and does not represent CASITAS.

IV. DEFINITIONS OF TERMS USED IN THIS REPORT

One Hundred Cubic Foot of Water (CCF)

Terms used as measurements of water vary by organization, type of application and the relative volume of water measured. Gallons, cubic feet, hundreds of cubic feet (CCF), and acre feet are only some of the terms used in the water industry and in agriculture. For the purpose of this report the term “CCF”, one hundred cubic feet of water, will be used when referencing water use. One “CCF” is equal to 746 gallons of water. GOLDEN STATE and CASITAS, as well as, most municipal water agencies use the “CCF” as the unit of measure for selling water. GOLDEN STATE and CASITAS water rates are based on “CCF”. “CCF” is used on GOLDEN STATE billing statements.

Billing Cycles (Bi-monthly verses monthly)

GOLDEN STATE and CASITAS bill their customers’ bi-monthly. Both organizations however publish their water rates in terms of monthly rates. This unfortunately leads to some confusion when discussing the costs of water and drawing comparisons between organizations or even historical comparison within the same organization. One finds facts stated in terms of monthly costs and bi-monthly costs often intertwined. To add further confusion GOLDEN STATE has requested the PUC to authorize a change from bi-monthly to monthly billing cycles beginning in 2011. For the purposes of this report bi-monthly water costs will be used exclusively. All comparison of costs both historically and between organizations will be in bi-monthly increments.

Typical GOLDEN STATE Customer

Over two-thirds of GOLDEN STATE customers in the Ojai service area have 5/8 inch meters (GOLDEN STATE DEC. 2009). GOLDEN STATE cites their average or “typical customer” as a 5/8 inch metered service using an average of 13 CCF per month or 26 CCF bi-monthly (GOLDEN STATE to the Ojai City Council January 26, 2010). Based on the number of customers with 5/8 inch meters and the total GOLDEN STATE water sales data, this seems to be a reasonable characterization of a typical GOLDEN STATE customer. Throughout this report the term “typical customer” will refer to a 5/8 inch service using an average of 26 CCF bi-monthly.

V. BACKGROUND ON CASITAS

CASITAS is a municipal water district operating under the authority of the Municipal Water District Section of the California Water Code. CASITAS has an elected governing body and an administrative structure defined by California law. CASITAS has the powers and authority to hold elections, sell municipal bonds and acquire property through eminent domain (Water Code Division 20). The entire GOLDEN STATE service area lies within the CASITAS boundaries and the area is already represented by an elected member of the Casitas Board of Directors. GOLDEN STATE customers are indirect customers of CASITAS in that GOLDEN STATE buys a portion of the water they deliver in Ojai from CASITAS. Properties in Ojai pay property taxes to CASITAS and have contributed to the repayment of the original construction loan that financed Casitas Dam and the Casitas water delivery system.

CASITAS has the expertise to operate the water system. CASITAS employs a staff of engineers and certified operators that operate the Casitas Dam, water treatment plant, and water transmission and distribution systems. CASITAS serves over 12.0 million gallons per day of wholesale water, irrigation water and residential water. The residential communities of Oak View, Mira Monte, Foster Park, Faria Beach, Solimar Beach, La Conchita, and Rincon Del Mar are served by CASITAS. Exhibit A (Map of CASITAS) highlights CASITAS's district boundaries.

CASITAS operates several large pipelines within the City of Ojai. CASITAS operates large water storage tanks above Fairview Road, Villanova Road and Reeves Road all of which supply the Ojai service area. CASITAS's system is interconnected to GOLDEN STATE's system.

Historically, CASITAS has successfully maintained its infrastructure with routine capital replacement projects; capital improvements, such as the water filtration plant; and responded to pipeline failures caused by the areas catastrophic flood events. CASITAS has maintained both the technical resources and financial resources to effectively manage the system. The residents of Ojai have and continue to contribute to CASITAS's operation through property tax and wholesale water purchases through GOLDEN STATE.

CASITAS has established water rates which offer a comparison to GOLDEN STATE. CASITAS also has a long water rate history that serves as a comparison to GOLDEN STATE's history.

VI. BACKGROUND ON GOLDEN STATE OJAI OPERATION

GOLDEN STATE, formally Southern California Water Company, is an investor owned company and a subsidiary of American States Water Company. GOLDEN STATE's headquarters is in San Dimas, California. GOLDEN STATE serves approximately 75 cities and has served Ojai since the early 1930's. GOLDEN STATE operates under the jurisdiction of the California Public Utilities Commission (PUC), headquartered in San Francisco.

GOLDEN STATE serves approximately 2880 metered connections (*GOLDEN STATE Dec. 2009*) in Ojai. Exhibit B (Map of GOLDEN STATE service area) contains a map highlighting the Ojai water service area. Total annual water sales are 859,187 CCF (*GOLDEN STATE Dec. 2009*) of water equivalent to an average of 2.0 million gallons of water per day. Total water service revenues for year end 2009 were \$4,307,900 (*GOLDEN STATE Dec. 2009*).

GOLDEN STATE's primary source of water supply is from five wells located in the Ojai Groundwater Basin. GOLDEN STATE pumps groundwater through a treatment facility and distributes the water throughout the Ojai area. The primary water storage tank is located on Fairview Road. Other storage tanks and lift stations deliver water to the higher elevations of the area on Foothill Road and Signal Street. GOLDEN STATE also purchases about 15% of its supply as supplemental water from CASITAS through five metered interconnections. GOLDEN STATE's total operating expenses for 2009 were \$2,214,500. Included in these expenses is \$217,060 for energy, \$92,000 for water treatment, \$371,046 for water purchases and \$775,000 for administration (*GOLDEN STATE Dec. 2009*).

GOLDEN STATE's 2880 metered connections range in size from 5/8 inch diameter to 6 inch diameter meters (*GOLDEN STATE Dec. 2009*). Smaller meter diameters are capable of delivering 15-25 gallons per minute of water while larger meters can deliver hundreds of gallons per minute. Over two-thirds of GOLDEN STATE customers have 5/8 inch meters. The distribution of GOLDEN STATE customers by meter size and the flow capacity of each size are contained in Exhibit C.

Although GOLDEN STATE sells nearly 900,000 CCF of water per year, GOLDEN STATE's "typical customer" uses 13 CCF per month or 26 CCF per bi-monthly billing period.

VII. WATER RATES

Current Water Rates

The 2011 water rates for GOLDEN STATE are contained in Exhibit D. CASITAS water rates are contained in Exhibit E. The rates are in two parts: service charges (or meter charges) based on the size of the metered service and commodity charges for water use. Each organization employs inclining tiered water rates for residential water customers. GOLDEN STATE has three tiers and CASITAS has four tiers. Both organizations bill on a bi-monthly basis, therefore the monthly service charges applied for two months service and the tiers are based on two months of water use.

GOLDEN STATE offers 10 CCF of water every two months at the Tier No. 1 rate of \$3.34 per CCF. CASITAS offers 20 CCF of water every two months at the Tier No. 1 rate of \$0.831 per CCF. CASITAS also has a business, recreation and residential-agricultural rates that maybe applicable to some Ojai area services. These rates are a single rate for all water used. The business and recreation rate is \$1.524 per CCF.

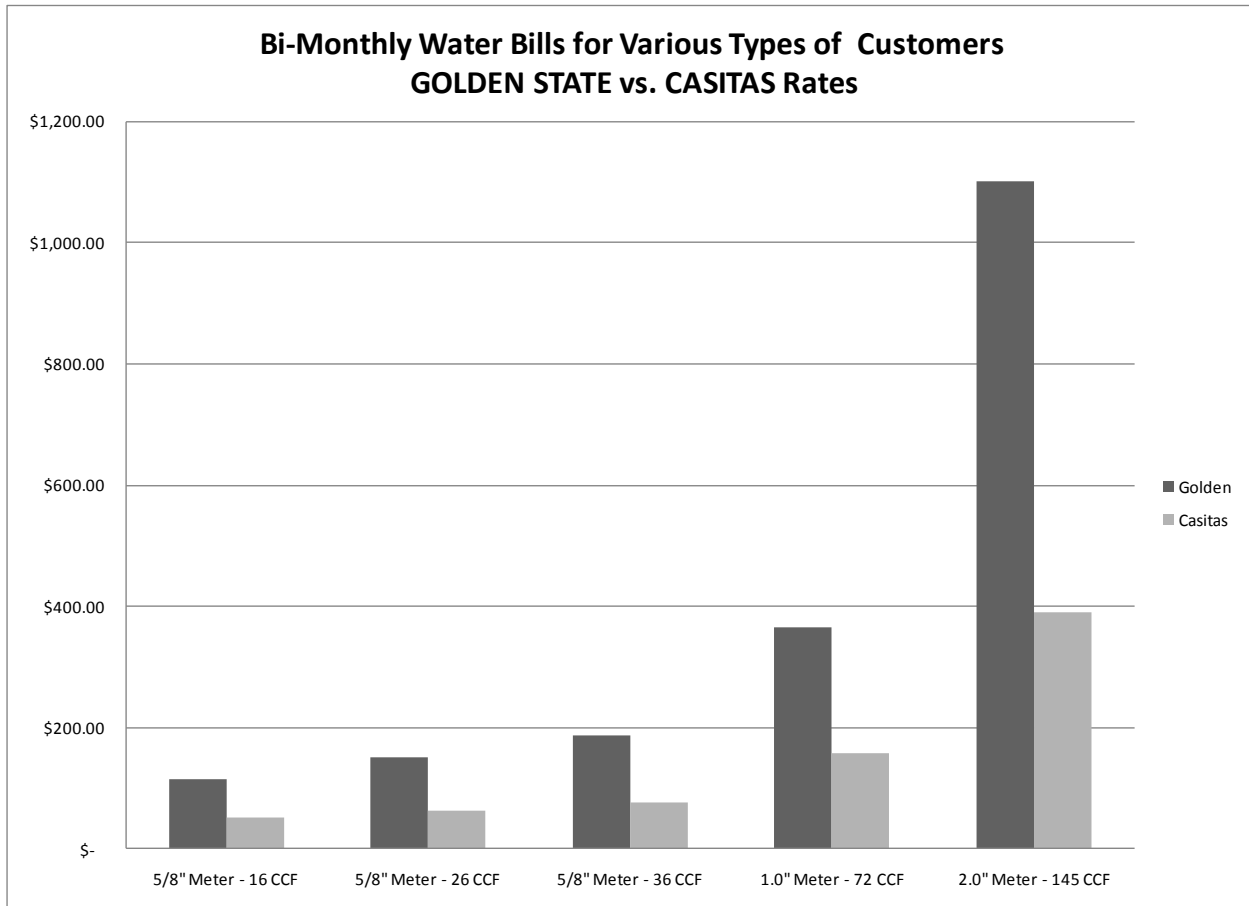
GOLDEN STATE also adds surcharges to standard rates from time to time. Beginning in 2008 a surcharge of \$0.033 is added to GOLDEN STATE published rates for all water sold. In April 2010 GOLDEN STATE was authorized to add \$0.170 to all Tier No. 1 water, \$0.183 to Tier No. 2 and \$0.214 to Tier No. 3 for a period of twelve months; and in October 2010 a surcharge of \$0.1845 was added (Cal PUC Sheet No. 5990-W). For the purpose of this analysis and for the sake of simplicity only GOLDEN STATE standard published rates are used, none of GOLDEN STATE surcharges are added. Therefore the actual cost of GOLDEN STATE water is about 4.8% higher than stated throughout this analysis.

Both organizations charge bi-monthly service or meter charges based on the size of the meter serving the property. GOLDEN STATE's lowest meter service charge is applied to 5/8" meter services. The charge is \$60.20 bi-monthly. Although CASITAS has some 5/8" meters its smallest service charge is applied to both 5/8 inch and 3/4 inch meter services. CASITAS's lowest meter service charge is \$38.32 bi-monthly.

Both GOLDEN STATE and CASITAS bill their customers on a bi-monthly basis. GOLDEN STATE's "typical customer" is billed \$151.14 for two months water service. If CASITAS rates were applied, the same customer would be billed \$62.54.

Chart A below compares GOLDEN STATE charges for water service to a variety of customer types. The chart contains examples of customers using less water than the "typical customer", as well as, those with larger meters and higher water consumption. In each case the GOLDEN STATE customer is paying twice as much for water as would be charged by CASITAS. The chart's data is contained in Exhibit F.

Chart A



GOLDEN STATE charges based on Cal. PUC Sheet 5990-W (excluding surcharges). CASITAS charges based on residential rates in CASITAS 9.2.4 Rate Schedule

History of Water Rate Increases

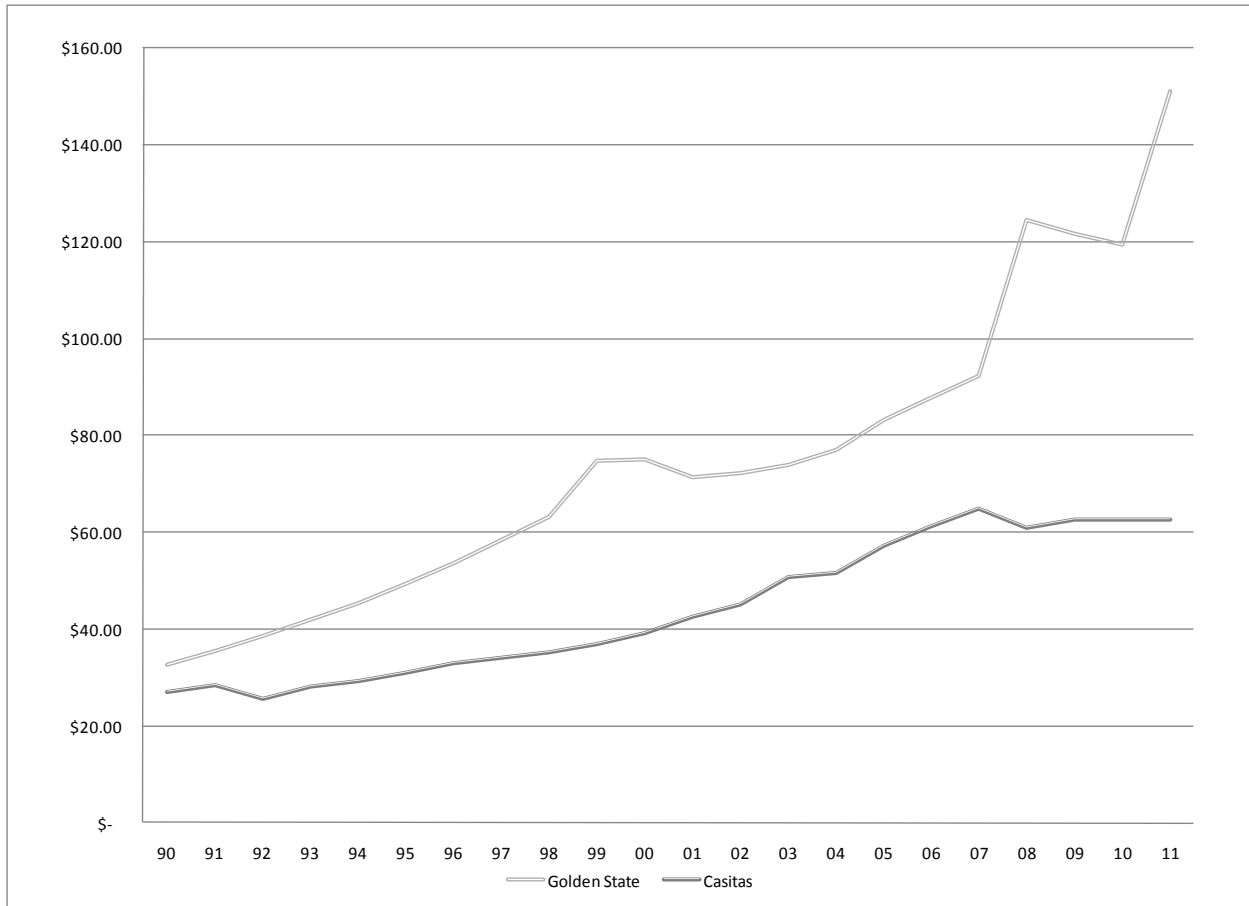
Historically GOLDEN STATE rates have been consistently higher than CASITAS. Chart B compares the historical cost to the typical GOLDEN STATE customer with the cost when CASITAS's historical charges are applied for the same service.

Chart B

GOLDEN STATE and CASITAS Historical Increases in Water Charges

“Typical Customer” Bi-monthly Costs

(5/8 inch meter using 26 CCF bi-monthly)



Casitas rates have increased over the past 20 years at an average rate of 4.2% per year with the highest single rate increase of 13% in 2003. GOLDEN STATE rates increased an average of 7.9% over the same period with the single highest increase of 34.9% in 2008. Chart B data is contained in Exhibit G.

Total Cost of Service

The total cost to the residents of Ojai for water service in 2009 was \$4.308 million (GOLDEN STATE Dec. 2009). Meter service charges account for approximately \$1.9 million of GOLDEN STATE revenue based on their 2009 meter service charges (Cal. PUC Sheet No. 5779-V) and the number of active services (GOLDEN STATE Dec. 2009). If CASITAS’s meter service charges were applied to 2009 service the cost to

the Ojai area would have been significantly less. Table I compares GOLDEN STATE to CASITAS meter service costs in the Ojai service area.

Table I

Golden State 2009 Meter Service Charge Revenue				Casitas Meter Service Charges Applied to Ojai			
	GSW (1)	(2)	Total GSW		CMWD (3)	(2)	Net Annual
	Bi-monthly	Total	Annual		Bi-monthly	Total	Annual
Meter Size	Meter Chg	Meters	Revenue	Meter Size	Meter Chg	Meters	Per Meter
5/8	\$ 48.30	1938	\$ 708,780.09	5/8	\$ 38.32	1938	\$ 445,584.96
3/4	\$ 72.40	195	\$ 106,901.50	3/4	\$ 38.32	195	\$ 44,834.40
1	\$ 120.70	543	\$ 496,269.64	1	\$ 60.06	543	\$ 195,675.48
1 1/2	\$ 242.00	63	\$ 115,442.71	1 1/2	\$ 114.39	63	\$ 43,239.42
2	\$ 386.00	140	\$ 409,190.88	2	\$ 179.60	140	\$ 150,864.00
3	\$ 724.00	7	\$ 38,374.90	3	\$ 386.07	7	\$ 16,214.94
4	\$ 1,208.00	1	\$ 9,146.98	4	\$ 690.36	1	\$ 4,142.16
6	\$ 2,414.00	2	\$ 36,557.62	6	\$ 1,527.13	2	\$ 18,325.56
Total Meter Revenue			\$ 1,920,664.30	Total Meter Revenue			\$ 918,880.92
(1) Cal. PUC Sheet No. 5779-V							
(2) GSWC Dec 2009							
(3) CMWD 9.4.2 Schedule Services Charges							

In order to apply CASITAS rates to 2009 GOLDEN STATE sales some assumptions about the distribution of sales through the various water rate tiers has been developed. The actual distribution was not available. To complicate matters GOLDEN STATE has only three tiers while CASITAS has four tiers. However, with the available information (total water sales, total revenue from sales, the total number of services, and the distribution of those services by size) a reasonable attempt at distributing the sales by tiers is contained in Exhibit H. The distribution results in an average of 26 units delivered to the 5/8 inch and 3/4 inch GOLDEN STATE customers, which is the “typical customer” cited by GOLDEN STATE. The remainder of the water use is distributed among the larger meters. The result is total water sold and total water revenue very close to GOLDEN STATE’s reported operations.

GOLDEN STATE revenue from water sales in 2009 was approximately \$2.38 million. If CASITAS rates were applied to the same distribution of sales the revenue would have been \$977,800. A comparison of the total cost of water service in 2009 from GOLDEN STATE and CASITAS is contained in Table II below. The difference in total annual cost to the Ojai area for water service in 2009 was \$2.4 million.

Table II

Comparison of Costs to the Ojai Area in 2009 Golden State vs. Casitas (1)			
	Golden State Total	Casitas Rates	
	Water Revenues	Applied	Difference
Total Meter Charges	\$ 1,920,600.00	\$ 918,880.00	\$ 1,001,720.00
Total Water Sales	\$ 2,388,000.00	\$ 977,800.00	\$ 1,410,200.00
Total Cost	\$ 4,308,600.00	\$ 1,896,680.00	\$ 2,411,920.00
(1) Exhibit H contains the method used for distribution of revenues by tiers			

VIII. THE COST OF ACQUISITION

If rates were the only issue this analysis would be simple, CASITAS has significantly lower rates than GOLDEN STATE. However, in order to replace GOLDEN STATE with CASITAS as the area’s water service provider the Ojai community would be required to buy GOLDEN STATE’s water system. The purchase could be accomplished through a negotiated sale or through eminent domain. In either case GOLDEN STATE is entitled to the fair market value of the water system.

There is data available to estimate the fair market value of the water system. The PUC requires GOLDEN STATE to routinely submit information regarding the value of the water system as part of the rate setting process. The net dollar value of the investment of the utility is considered the “rate base”. The “rate base” is determined by the following factors:

- Original cost of the organization, franchise, water rights and other intangibles
 - Original cost of land that is used or useful for the utility service
 - Original cost of depreciable properties that are used or useful for the utility service
 - Reasonable allowance for materials and supplies
 - Allowance for working cash
- Less
- Contributions in aid of construction
 - Unrefunded advances
 - Depreciation reserve
 - Differed tax reserve (if any) (PUC June 2001).

The “rate base” is the foundation of the rate setting. The utility is allowed a rate of return on the “rate base” of approximately 8% to 10% of the “rate base”. The “rate base” is an important value for the utility because the higher the “rate base” the larger the profit they are allowed on the operation (PUC June 2001). There is no incentive for the utility to understate the “rate base” therefore making the “rate base” a reasonable statement of general value of the utility.

GOLDEN STATE reported a “rate base” for year end 2009 of \$12,717,219.00 (CSWC Dec 2009). Exhibit I is a detailed spread sheet of the “rate base” for 2008 and 2009 as reported by GOLDEN STATE. The “rate base” will change as GOLDEN STATE implements capital projects, existing components of the system depreciate, and deductions for contributions in aid of construction, unrefund advances and differed taxes fluctuate. A forecast of the future “rate base” value may be estimated by applying an implementation schedule of GOLDEN STATE’s plan for water system capital projects with an estimated annual depreciation rate. For the purpose of this analysis only accumulated depreciation will be deducted from the “Total Gross Plant in Service” each year. There is no information at this time available to estimate future values of contribution- in-aid of construction, unrefunded advances or differed tax reserves. The result will be an estimate of the value of the net “Plant in Service” which may be slightly higher than the “rate base”. The net “Plant in Service” value in 2008 was \$13.6 million and in 2009 \$14.4 million. This is approximately \$2.0 million higher than each year’s report “rate base”.

GOLDEN STATE developed a capital replacement and improvement plan in 2009 to replace aging pipelines and other infrastructure over the next 20 years. Exhibit J contains the pipeline projects and other infrastructure replacement and improvements projects as well as the planned implementation schedule. The total estimated cost of all proposed projects is \$27,728,000. Some of these projects were completed in 2010 and the PUC has recommended approval of capital project costs for 2010 and 2011 (PUC Nov 2010). The Mutual Water Well replacement project has been approved for 2011-12 ahead of original 2016 schedule.

The PUC has also recommended an annual depreciation rate of 3.95% (PUC Aug. 2010).

Table III below contains an estimate of the GOLDEN STATE net “Plant in Service” value through 2020. The projection includes projects approved by the PUC for 2010-11 and implementation of the GOLDEN STATE scheduled projects over 10 years. The estimate also assumes a continued annual depreciation rate of 3.95%. The construction of the new Mutual Well is included in New Capital in 2012 because the PUC has recommended approval of the project, but did not recommend adding the cost to the “rate base” until it is complete (PUC Nov. 2010).

Table III

Projected Accumulated Value of Golden State Plant in Service (1)				
Year	Complete Projects (2)	Annual Depreciation(3)	Gross Plant in Service	Net Plant in Service
2008		\$ 3,831,000	\$ 17,768,262	\$ 13,937,262
2009	\$ 930,841	\$ 4,307,000	\$ 18,699,103	\$ 14,392,103
2010	\$ 2,018,359	\$ 5,045,615	\$ 20,717,462	\$ 15,671,847
2011	\$ 1,178,355	\$ 5,863,954	\$ 21,895,817	\$ 16,031,863
2012	\$ 2,792,000	\$ 6,728,839	\$ 24,687,817	\$ 17,958,978
2013	\$ 1,630,000	\$ 7,704,008	\$ 26,317,817	\$ 18,613,809
2014	\$ 2,830,000	\$ 8,743,562	\$ 29,147,817	\$ 20,404,255
2015	\$ 2,160,000	\$ 9,894,900	\$ 31,307,817	\$ 21,412,917
2016	\$ 1,290,000	\$ 11,131,559	\$ 32,597,817	\$ 21,466,258
2017	\$ 3,935,000	\$ 12,419,173	\$ 36,532,817	\$ 24,113,644
2018	\$ 1,440,000	\$ 13,862,219	\$ 37,972,817	\$ 24,110,598
2019	\$ 1,410,000	\$ 15,362,145	\$ 39,382,817	\$ 24,020,672
2020	\$ 1,080,000	\$ 16,917,767	\$ 40,462,817	\$ 23,545,050
(1) 2008-09 values as reported by Golden State (Golden State Dec. 2009)				
(2) 2010-11 Completed Projects as recommended by the PUC (PUC Nov. 2010)				
2012 Includes Golden State scheduled projects and the Mutual Well approved by PUC (PUC Nov 2010)				
(3) Annual depreciation rate 2010-2020 3.95% as recommended by the PUC (PUC Nov. 2010)				

If acquisition occurred within the next 5 years the estimated fair market value of GOLDEN STATE system would be between \$16.0 and \$21.4 million.

Capital Cost of Needed Repairs to the GOLDEN STATE System

Exhibit K contains an inventory of GOLDEN STATE pipelines by age. Approximately 19% of the pipeline system is pre-1950’s vintage and another 17% is pre-1960. As a point of reference CASITAS’s system was constructed in the early 1960’s with some major expansions in the early 1970’s. GOLDEN STATE’s Master Plan would replace over 30% of the entire pipeline system potentially eliminating nearly all of the aged pipelines. The total estimated cost of the pipeline program is \$22,178,000 to replace 77,050 feet of pipe. Other infrastructure replacement projects in the master plan are water storage tanks, booster pumps, and wells. These projects total \$5,550,000. The total cost of GOLDEN STATE’s Master Plan is \$27,728,000.

For the purposes of this analysis it is assumed that the GOLDEN STATE Master Plan for capital replacement and capital improvements is needed to maintain a quality water system. Therefore the potential liability to any agency acquiring the system would include completing the master plan. As GOLDEN STATE implements that plan the value of the net “Plant in Service” of GOLDEN STATE will increase, however the needed capital to cover replacements will decrease. Table IV below contains an estimated level of needed investment remaining over the next ten years. If GOLDEN STATE proceeds

with the schedule of capital improvements and replacements over the next 5 Years, there will remain a range of capital needed to complete the 20 year plan of \$15.1 to \$24.5 million.

Table IV

Net Capital Required to Complete Master Plan (1)			
Year	Complete Projects (2)	Net Plant in Service	Balance of Master Plan
2008		\$ 13,937,262	
2009	\$ 930,841	\$ 14,392,103	\$ 27,728,000.00
2010	\$ 2,018,359	\$ 15,671,847	\$ 25,709,641.00
2011	\$ 1,178,355	\$ 16,031,863	\$ 24,531,286.00
2012	\$ 2,792,000	\$ 17,958,978	\$ 21,739,286.00
2013	\$ 1,630,000	\$ 18,613,809	\$ 20,109,286.00
2014	\$ 2,830,000	\$ 20,404,255	\$ 17,279,286.00
2015	\$ 2,160,000	\$ 21,412,917	\$ 15,119,286.00
2016	\$ 1,290,000	\$ 21,466,258	\$ 13,829,286.00
2017	\$ 3,935,000	\$ 24,113,644	\$ 9,894,286.00
2018	\$ 1,440,000	\$ 24,110,598	\$ 8,454,286.00
2019	\$ 1,410,000	\$ 24,020,672	\$ 7,044,286.00
2020	\$ 1,080,000	\$ 23,545,050	\$ 5,964,286.00
(1) 2008-09 values as reported by Golden State (Golden State Dec. 2009)			
(2) 2010-11 Completed Projects as recommended by the PUC (PUC Nov. 2010)			
2012 - Scheduled projects and the Mutual Well approved by PUC (PUC Nov 2010)			

Legal Costs of Acquisition

From the inception of any action to acquire GOLDEN STATE legal cost will begin to accrue. Some of the anticipated services required are:

- Legal services to begin negotiations with GOLDEN STATE
- Legal services to proceed with eminent domain if necessary
- Legal services to complete eminent domain and reach final settlement
- Legal services for bond sales
- Administration of Acquisition
- Intervention in GOLDEN STATE-PUC rate cases

Some or all of these services will be needed and potentially the most costly would be eminent domain and final settlement. As a result of discussions with members of a citizens group in Felton California, who successfully facilitated the acquisition of American Water Company by San Lorenzo Water District, it is estimated that a range of \$1.0 to \$4.0 million may needed to successfully complete a lengthy eminent domain process. The costs would be directly related to the length of the acquisition process. An early settlement could cost as little as \$1.0 million and a four year eminent domain action could cost

as much as \$4.0 million. Other costs included are CASITAS administrative costs and the cost of intervention in future GOLDEN STATE-PUC rate cases to assure GOLDEN STATE invests capital in the most needed infrastructure projects.

Total Capital Cost of Acquisition

Based on the above assumptions the total cost of acquisition including purchase of the GOLDEN STATE system, legal costs, and the cost of up-grading the system through completion of the master plan would range from \$41.5 million today to \$40.5 million in five years depending upon the level of investment GOLDEN STATE makes into the system over that period. It is reasonable to expect the acquisition period to take anywhere from 2 to 5 years. Table V below contains the estimated cost of acquisition over the 5 year period.

Table V

Total Estimated Cost of Acquisition					
Year	Net Plant in Service	Balance of Master Plan	Attorney Fees	Net Cost of Acquisition	
2011	\$ 16,031,863	\$ 24,531,286	\$ 1,000,000	\$ 41,563,149	
2012	\$ 17,958,978	\$ 21,739,286	\$ 2,000,000	\$ 41,698,264	
2013	\$ 18,613,809	\$ 20,109,286	\$ 3,000,000	\$ 41,723,095	
2014	\$ 20,404,255	\$ 17,279,286	\$ 4,000,000	\$ 41,683,541	
2015	\$ 21,412,917	\$ 15,119,286	\$ 4,000,000	\$ 40,532,203	

IX. IMPACTS TO CURRENT CASITAS RATEPAYERS

CASITAS has an obligation to its existing ratepayers and cannot accept any new liability that would result in future costs to those ratepayers. The GOLDEN STATE customers must provide sufficient capital and/or a revenue stream that will cover the costs associated with operating and maintaining the GOLDEN STATE system, as well as, the cost of needed improvements and replacements to the water system.

General Operations and Maintenance

GOLDEN STATE’s reported cost of operations less depreciation for 2009 was \$ 2,124,500 (GOLDEN STATE Dec. 2009). Included in operations cost are \$775,200 for administration and \$30,500 for rent. CASITAS has a full administrative organization in place and would not need rental property. Assuming CASITAS operates the GOLDEN STATE system in the same manner and that there are no benefits from the economy of scale, the estimated net cost to CASITAS would be approximately \$1,319,000 per year.

Leaks

The greatest immediate impact to CASITAS may be the number of leaks that occur in the GOLDEN STATE system. GOLDEN STATE has averaged 88 service leaks per year because of the deteriorating polyethylene pipe used for some service lines from the main to the meter. The other issue is pipeline leaks. GOLDEN STATE system experiences an average of 45 pipeline leaks per year. One of the purposes of GOLDEN STATE’s master plan is to reduce pipeline leaks (GOLDEN STATE Aug. 2010).

It is assumed that at least part of the cost of the leaks is included in GOLDEN STATE operating costs. In addition in 2010 GOLDEN STATE has budgeted \$164,000 for services and \$89,000 for small main replacements. These capital funds are listed in the budget category “Blankets”. “Blankets” are for, among other things, replacement of meters, services and pipelines that are operationally deficient. (DRA May 2010). The total estimated annual operating costs including leaks would be \$1,571,729. Table VI contains a summary of estimated cost of operations. Detailed GOLDEN STATE expenses are in Exhibit L.

Table VI

Golden State Actual 2009 Operating Expenses vs. Estimated Casitas Expenses				
Operations Expenses	Golden State 2009	Adjustment	Estimated Casitas Cost	
	(1)			
Total Water Supply	\$ 392,804.00		\$ 392,804.00	<i>Includes purchases from Casitas</i>
Total Pumping Expenses	\$ 402,907.00		\$ 402,907.00	
Total Treatment Expenses	\$ 92,013.00		\$ 92,013.00	
Total Tran. & Distr. Expenses	\$ 271,397.00	\$ 253,000.00	\$ 524,397.00	<i>Plus "blankets" for leaks (2)</i>
Total Customer Account	\$ 161,143.00		\$ 161,143.00	
Sales Expenses	\$ (1,535.00)		\$ (1,535.00)	
Admin	\$ 775,282.00	\$ (775,282.00)	\$ -	<i>less overhead</i>
Rent	\$ 30,503.00	\$ (30,503.00)	\$ -	<i>less rent</i>
Total Expenses	\$ 2,124,514.00		\$ 1,571,729.00	
(1) Golden State Dec. 2009				
(2) "Blankets are misc. capital expenditures reported by Golden State related to meter service and pipeline repairs (Golden State (Dec. 2009)				

Aging Water System

GOLDEN STATE’s system is older and portions of the system may not meet CASITAS standard specifications for construction. The capital funds intended to complete GOLDEN STATE Master Plan would be used by CASITAS to up-grade the GOLDEN STATE system.

CASITAS could direct those funds to the areas that would best incorporate the GOLDEN STATE system with CASITAS. CASITAS has existing main water lines that run through the City of Ojai, some paralleling (Matilija Conduit, Grande Avenue Main, Ojai Valley Main) GOLDEN STATE that may reduce the need for some of GOLDEN STATE’s proposed pipeline projects. CASITAS has storage (Fairview, Ojai Valley, Villanova Reservoirs) in some cases at higher elevations than GOLDEN STATE, potentially eliminating the need for some of GOLDEN STATE booster pump stations and even some reservoirs. Efficient merger of the two systems would enable CASITAS to redirect capital funds to other priorities within the GOLDEN STATE system. In some cases the total cost of the GOLDEN STATE master plan may be reduced. CASITAS may also find some facilities and the associated real property unnecessary to the operation, in which

case the proceeds from the sale could be contributed to the master plan. At least some of these facilities will not be necessary if CASITAS were to operate the system.

Prior to acquisition, Casitas may conduct an evaluation study of the two systems to determine the most effective method of system integration. The study would also result in a revised master plan for system improvements and replacements.

Water Supply

There would be no net increase in water demand as a result of the acquisition of GOLDEN STATE. GOLDEN STATE produces water from local ground water and purchases water from CASITAS as a supplemental supply. If CASITAS acquires GOLDEN STATE, CASITAS would acquire the groundwater wells along with the right to continue to produce water in historical quantities for the benefit of the Ojai service area.

Revenue Impacts

CASITAS would realize new revenue from monthly service fees of \$918,000 annually based on CASITAS's current service charges and GOLDEN STATE's existing service connections. CASITAS's total revenues from water service would increase by 46% from \$1,994,000 to over \$2.9 million per year. CASITAS would also see new revenue of approximately \$977,800 in water sales based on CASITAS's current rates. This would increase CASITAS's total water sales revenue from \$6.65 million to \$7.62 million annually (CASITAS July 2010). The net result would be a 15% increase in total water revenues or \$1.89 million with no additional water demand. With the acquisition of GOLDEN STATE, CASITAS would lose the wholesale water revenues from GOLDEN STATE, however for the purpose of this analysis it is assumed CASITAS delivers the water at cost, therefore GOLDEN STATE's 2009 purchases of \$371,046 is included in estimated operating costs to CASITAS (TABLE VI).

Net Impact to CASITAS

CASITAS would realize net increase in revenues of \$1.89 million and an estimated increase in operation cost of \$1,571,730 for a net surplus of \$324,959 annually at 2010 rates. If CASITAS directs available capital from the acquisition toward projects that reduce service line and pipeline leaks in the early stages of the master plan, and is able to take advantage of the economy of scale in reducing overall operating expenses, CASITAS could significantly increase the available annual revenue surplus. In the short term the revenue surplus may be needed to address weaknesses in the GOLDEN STATE system, however, in the long term the increased customer and revenue base of the Ojai service area could reduce CASITAS's financial burden on the entire CASITAS service area. Table VII summarizes the net revenues anticipated by CASITAS's operation of the Ojai system.

Table VII

Estimated CMWD Surplus Revenues from Operation of Ojai Service Area	
Casitas 2010 Water Rates Applied to Golden State 2009 Sales	
Revenues (1)	
Meter service charges	\$ 918,888.00
Water sales (retail)	\$ 977,800.00
Net Revenue	\$ 1,896,688.00
Estimated Expenses	\$ 1,571,729.00
Surplus Revenues	\$ 324,959.00
(1) Sales Revenues from Exhibit H - Meter charges from Table I	

X. AFFORDABILITY OF ACQUISITION

The affordability of the acquisition of GOLDEN STATE can be measured by the cost differential between GOLDEN STATE’s charges for water service and CASITAS’s charges for the same service. Table VIII applies 2011 water rates to 2009 GOLDEN STATE water sales. The result is the estimated total cost of GOLDEN STATE water service for 2011 compared to the estimate cost of the same service from CASITAS. Based on this simple comparison the residents of the Ojai Area can afford to allocate as much as \$3.14 million annually to acquire GOLDEN STATE.

Table VIII

Cost Of Water To Ojai Service Area 2011 (1)			
	Golden State Total (2)		Casitas Rates
	Water Revenues	Applied	Difference
Total Meter Charges	\$ 1,920,664.30	\$ 918,880.92	\$ 1,001,783.38
Total Water Sales	\$ 3,125,051.74	\$ 979,725.86	\$ 2,145,325.88
Total Cost	\$ 5,045,716.05	\$ 1,898,606.78	\$ 3,147,109.27
(1) Exhibit G contains the method used to distribute revenues by tiers			
(2) Golden State Rates: Cal PUC Sheet No. 5990-W			

In addition to the differential saving between GOLDEN STATE and CASITAS water rates, there is projected surplus revenue from operations of the Ojai Area system by CASITAS of approximately \$325,000 per year (Table VII) based on GOLDEN STATE 2009 sales. These surplus funds could also be applied to funding the acquisition, bring the total available funding resources to \$3.46 million per year.

XI. ALTERNATIVE FUNDING METHODS

Regardless of the method of funding it is assumed that acquisition will be authorized by voter initiative. Included in the initiative would be the preferred funding strategy.

Common funding options are various types of long-term municipal bonds secured by property tax or revenues from water sales. Funds can also be raised through surplus annual operating revenues and made available for capital improvements on a “pay-as-you-go” basis.

A significant amount of capital will be needed to buy GOLDEN STATE’s system at the time of acquisition. Legal costs will begin to accrue before final acquisition; these funds will be needed almost immediately. Capital will also be required to complete the most urgent capital replacement projects following acquisition to assure that CASITAS can hold down maintenance costs on the system. Additional funds may be needed to finish long-term, less urgent capital improvements needed over the course of 20 to 30 years following acquisition.

The criteria used to develop and evaluate the various funding options are:

- Make every effort to distribute both the costs and any potential savings equitably among the Ojai service area residents
- Because nearly two-thirds of the GOLDEN STATE customers are 5/8 inch metered services with relatively low water use, the impact on them is of primary importance.
- Assure current CASITAS ratepayers that they will not be negatively impacted
- Assure CASITAS that sufficient financial resources are made available to successfully complete the acquisition
- Assure CASITAS that sufficient funds are available to service debt and meet future capital requirements
- Offer the Ojai residents some immediate relief from the current cost of water.

Sale of Bonds Secured By Property Tax

The sale of bonds secured by property tax is a common method of funding the acquisition. Municipal bonds, if approved by the voters, may be sold and the proceeds used to cover all or part of the acquisition costs. This option typically is used because the bonds sold are exempt from state and federal

income tax and therefore can be issued at a reduced interest rate. The bonds would be repaid by assessing the debt service on the property tax. This may be beneficial to some as a tax deductible expense.

Exhibit M is a distribution of debt service for \$35.0 million in bonds on property tax. The basis of the assessment is a \$2.05 charge per gallon per minute capacity of the property's meter service. The capacity of the meter is used as a measure of the properties potential for using water. A rough estimate of the number and size of tax exempt properties have been removed from the calculation. Property taxes would range from \$369 per year for a 5/8 inch service to \$1,230 per year for a 1.0 inch meter, and nearly \$3,939 per year for a 2.0 inch meter. Despite these seemingly high assessments, Exhibit M illustrates that all but the largest meter services would realize a savings in total water costs over GOLDEN STATE's operation. A similar method of allocating the cost of acquisition was used in Felton, California.

The disadvantages of this option are: not everyone is able to take advantage of the income tax deduction; it is very difficult to equitably distribute the cost of debt service on the property in proportion to the benefit of water service. Some properties may use little water but will pay a tax based on water meter size. Residents with 5/8 inch meters that use less than 16 CCF per billing period would realize little or no immediate savings. Government institutions and some non-profits organizations, many of which are large water users, are exempt from property tax and would see a windfall savings at the expense of other water users.

Sale of Revenue Bonds Secured by a Surcharge on Water Use

Revenue Bonds may be sold and secured by water rates. Revenue Bonds may be sold and used for all or part of the acquisition costs. These bonds could be repaid by applying a fixed surcharge, to be paid only by GOLDEN STATE service area customers, in addition to the CASITAS standard rates for water service. The surcharge would remain constant and expire upon repayment of the bonds or an agreed term. The burden of repayment would be distributed among the Ojai service area based on water use. This approach offers the most equitable method of repayment. Those using the most water will benefit from the reduced cost of acquisition of GOLDEN STATE and will also contribute the most to the capital cost. Low water users will pay less and conservation of water will be rewarded.

Exhibit N contains the results of applying a \$2.50 per CCF surcharge to the current CASITAS water rates. The total revenue generated by the surcharge would be \$2.15 million dollars per year. The "typical customer" would realize a \$23.50 bi-monthly savings or an annual savings of over \$141.00. The total savings to the Ojai Area would be nearly \$1.0 million per year (See Table IX).

At 5.0% interest, financed over 30 years, a debt service of \$2.15 million dollars would finance a total bond sale of \$33.0 million.

Table IX

	Cost Of Water To Ojai Service Area 2011 (1)			
	Golden State Total	Casitas Rates	Casitas w/	
	Water Revenues (2)	Applied	Surcharge	Difference
Total Meter Charges	\$ 1,920,664.30	\$ 918,880.92	\$ 918,880.92	\$ 1,001,783.38
Total Water Sales	\$ 3,125,051.74	\$ 979,725.86	\$ 3,130,905.86	\$ (5,854.12)
Total Cost	\$ 5,045,716.05	\$ 1,898,606.78	\$ 4,049,786.78	\$ 995,929.27
(1) Exhibit G contains the method used to distribute revenues by tiers				
(2) Based on Cal PUC Sheet No. 5990.W excluding Golden State surcharges				

The disadvantages of the Revenue Bond option are the interest rates on this type of bond may not be as attractive as bonds secured by property tax and the repayment would not qualify as a tax deduction.

The other disadvantage is these bonds could not be secured by the revenue from the water surcharge until CASITAS completes acquisition. CASITAS would have to cover the up-front legal costs associated with the acquisition until acquisition is complete. Bond proceeds could then be used to reimburse CASITAS.

Another important concern is that the volume of water sold by GOLDEN STATE varies from year to year based on a variety of conditions. All revenues based on volume of sales will also fluctuate year to year, while the debt service will remain constant.

Variations in water sales are impacted by weather and economic conditions. The 2009 sales (859,187 CCF) used in this analysis are the lowest annual sales experienced by GOLDEN STATE in the past 5 years. It is reasonable to assume that at least part of the cause of the low sales volume may have been the extraordinary economic conditions of 2009 coupled with GOLDEN STATES implementation of a 34.9% rate increase. Sales in 2006 were 1,094,227 CCF and the PUC estimates sales for 2011 at 920,500 CCF (Cal PUC August 2010). Actual sales for 2010 were not available in time for this report. For the purposes of this analysis the 2009 lowest sales in 5 years, was used throughout.

Combining Bond Proceeds and Revenues from Water Surcharges

The operating budget discussed above includes funds to operate the system “as-is” which allows time for CASITAS to evaluate and prioritize needed system improvements based on their experience operating the system. Rather than issuing bonds to secure the maximum amount of cash affordable it, may be more practical to provide flexibility in structuring debt and managing the annual revenues from an applied water surcharge. In the above analysis the estimated total cost of acquisition, plus the estimated costs to complete system improvements over a 15-20 year period, is \$40.0 to \$41.5 million. However, Table X illustrates that the maximum amount of cash needed immediately upon acquisition

would be \$18.0 to \$26.4 million depending on the length of the acquisition process. The capital requirement includes \$1.0 million to complete construction of any immediately needed systems integration.

Table X

Cash Requirements

Year	Total Cost of Acquisition	Net Plant Value Golden State	Estimated Legal Costs	Estimated Cost of Start Up	Cash Required at Time of Acquisition	Capital Needed to Complete Master Plan
2011	\$ 41,563,149	\$ 16,031,863	\$ 1,000,000	\$ 1,000,000	\$ 18,031,863	\$ 23,531,286
2012	\$ 41,698,264	\$ 17,958,978	\$ 2,000,000	\$ 1,000,000	\$ 20,958,978	\$ 20,739,286
2013	\$ 41,723,095	\$ 18,613,809	\$ 3,000,000	\$ 1,000,000	\$ 22,613,809	\$ 19,109,286
2014	\$ 41,683,541	\$ 20,404,255	\$ 4,000,000	\$ 1,000,000	\$ 25,404,255	\$ 16,279,286
2015	\$ 40,532,203	\$ 21,412,917	\$ 4,000,000	\$ 1,000,000	\$ 26,412,917	\$ 14,119,286

The smaller initial capital outlay reduces the long-term revenues need to service the debt. Table XI contains the resulting debt service requirements for each scenario in Table X and the surplus annual revenues from the \$2.50 surcharged discussed earlier. The surplus revenues from the surcharge would be available to CASITAS for a period of up to 30 years to fund capital improvements on a “pay-as-you-go” basis.

Table XI

Year	Total Capital from Bonds	Annual Revenue From Surcharge	Annual Debt Service	Annual Surplus Revenue from Surcharge
2011	\$ 18,031,863	\$ 2,150,000	\$1,172,999	\$977,001
2012	\$ 20,958,978	\$ 2,150,000	\$1,363,412	\$ 786,588
2013	\$ 22,613,809	\$ 2,150,000	\$1,471,061	\$ 678,939
2014	\$ 25,404,255	\$ 2,150,000	\$1,652,583	\$ 497,417
2015	\$ 26,412,917	\$ 2,150,000	\$1,718,198	\$ 431,802

In addition to the surplus revenues from the surcharge CASITAS will realize a surplus from water sales to the GOLDEN STATE service area of approximately \$325,000 per year (Table VII) based on GOLDEN STATE 2009 sales. These surplus funds could also be applied to a “pay-as-you-go” capital projects plan. Table

XII illustrates that a “pay-as-you-go” funding plan, including surplus operations revenues, would fund the acquisition and provided \$14.0 to \$23.5 million to complete system improvements over 18-20 years.

Table XII

Based on GOLDEN STATE 2009 sales and a surcharge of \$2.50 per CCF

Year	Total Capital from Bonds	Annual Revenue From Surcharge	Annual Debt Service	Annual Surplus Revenue from Surcharge	Annual Surplus from Operations	Total Annual Revenues Available	Additional Capital Required	Years to Complete Pay-as-you-go
2011	\$ 18,031,863	\$ 2,150,000	\$1,172,999	\$977,001	\$324,959	\$1,301,960	\$ 23,531,286	18.1
2012	\$ 20,958,978	\$ 2,150,000	\$1,363,412	\$ 786,588	\$ 324,959	\$ 1,111,547	\$ 20,739,286	18.7
2013	\$ 22,613,809	\$ 2,150,000	\$1,471,061	\$ 678,939	\$ 324,959	\$ 1,003,898	\$ 19,109,286	19.0
2014	\$ 25,404,255	\$ 2,150,000	\$1,652,583	\$ 497,417	\$ 324,959	\$ 822,376	\$ 16,279,286	19.8
2015	\$ 26,412,917	\$ 2,150,000	\$1,718,198	\$ 431,802	\$ 324,959	\$ 756,761	\$ 14,119,286	18.7

The option of combining bond proceeds and surplus revenues to finance the acquisition offers the Ojai Area residents the same advantages as the Revenue Bonds option discussed above. The option offers an immediate savings and the distribution of costs-benefits is allocated equitably based on water use.

The added benefits of this option are that it offers CASITAS some insurance that adequate funds will be available each year to cover the debt service and it provides a long-term revenue stream of \$750,000 to \$1,300,000 per year for up to thirty years. This long-term revenue stream can be used to fund “pay-as-you-go” improvements to the water system, build capital reserve funds to finance unanticipated future capital needs, and build reserves to buffer variations in water sales.

Once sufficient capital has been generated and operating cost controlled it may be possible to reduce the water surcharge on the Ojai Area.

Preferred Funding Option

Based on the above analysis the preferred funding option is a combination of Revenue Bonds secured by a \$2.50 per CCF water surcharge and a “pay-as-you-go” capital improvement plan funded by surplus revenues from the water surcharge and operations. This option best satisfies the established evaluation criteria cited above. This option offers the following:

- The costs and savings to the Ojai Area residents are equitably distributed based solely on water use
- Ojai residents with 5/8 inch meters will realize an immediate 15% reduction in costs
- Adequate funding is provided to operate the GOLDEN STATE system ‘as-is’, before improvements may be implemented, to assure that CASITAS ratepayers are not negatively impacted
- A large continuance of Capital is available through the sale of Revenue Bonds to successfully complete the acquisition
- A revenue stream sufficient to service debt and meet future capital requirements is available for up to 30 years
- Ojai residents will realize immediate relief from the current cost of water.

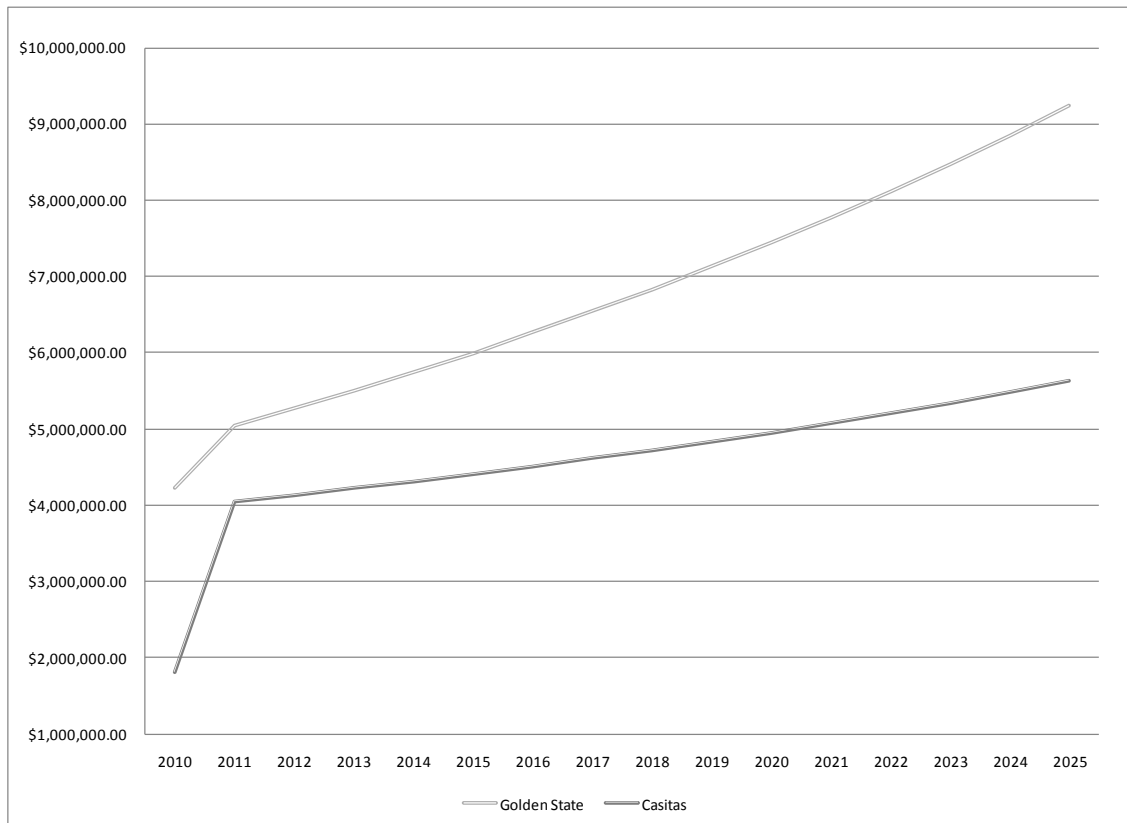
XII. PROJECTED FUTURE COSTS OF WATER SERVICE

Using the 20 year history of GOLDEN STATE and CASITAS water rate increases, including the proposed \$2.50 per CCF water surcharge discussed above, the saving to the Ojai service area would grow from \$995,000 per year to nearly \$3.4 million per year by 2025. This is considered a reasonable estimate when one considers the long water rate history available for comparison as well as GOLDEN STATE’s plans to invest over \$27.0 million dollars in the water system by 2030. That investment would be made with the intent of gaining a return on the investment of around 8% - 10%. CASITAS’s rates would not increase nearly as rapidly based on their history and; the \$2.50 per CCF surcharge is a fixed component of the rate, therefore not subject to future rate increases. (See Chart C).

Chart C

**Comparison of Projected Total Water Costs to the Ojai Service Area
Based on 20 Year History of Golden State and Casitas Rate Increases
With Proposed \$2.50 CCF Surcharge**

(Data for Chart C is contained in Exhibit O)

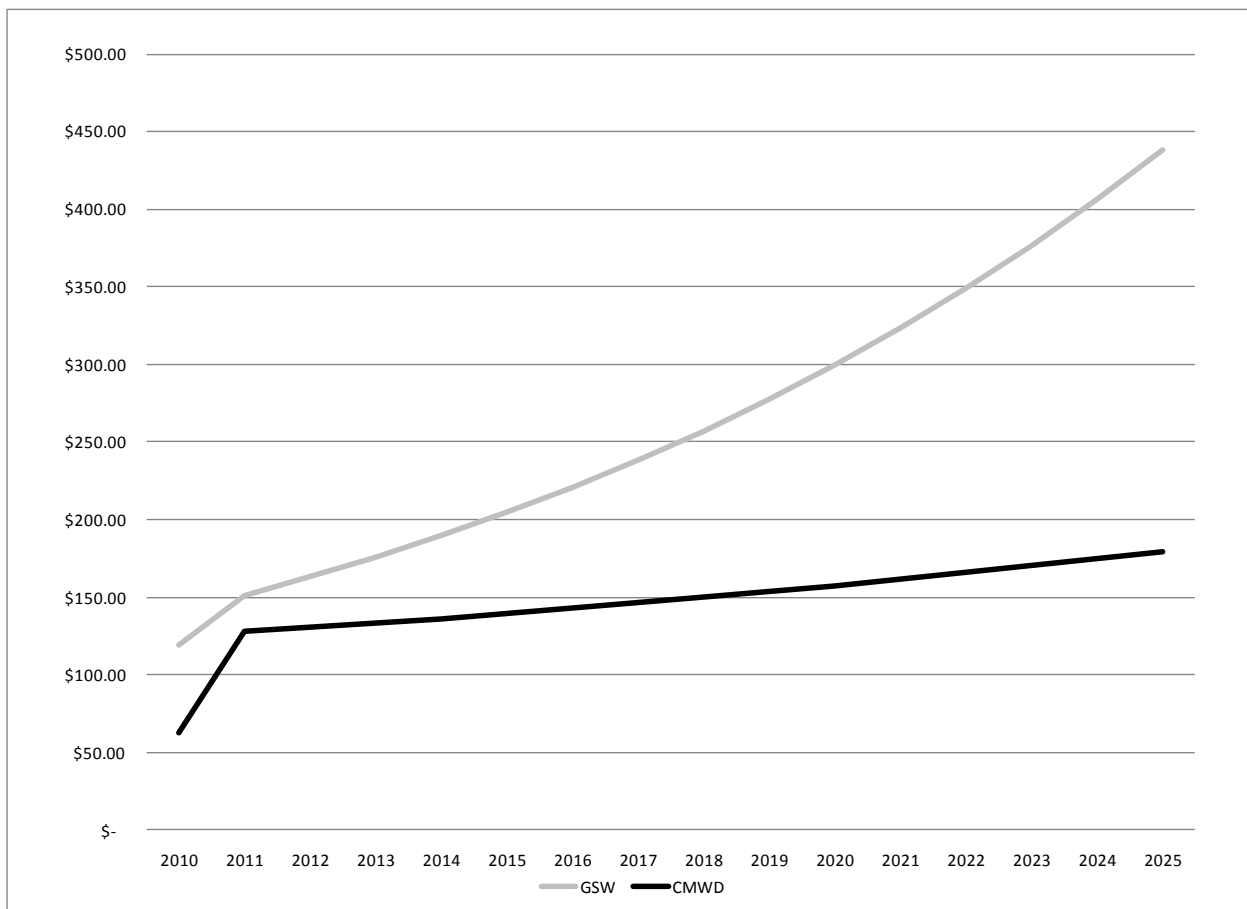


Based on historical rate increases the “typical customer” will be paying GOLDEN STATE \$437.00 bi-monthly for water service by 2025. If CASITAS projected rates are applied and the \$2.50 surcharged added, the same customer will be paying \$179.60 bi-monthly. The projected saving is over \$255.00 per billing period or over \$1,500.00 dollars per year by 2025. (See Chart D.)

Chart D

Projected Future Bi-monthly Water costs for the “Typical Customer” (5/8 inch meter - 26 CCF) Golden State vs. Casitas with Surcharge

(Data for Chart D is contained in Exhibit P)



XIII. MARGIN OF ERROR

The margins of error that may be contained in the development of the various elements of this analysis are different for each component. The most subjective element affecting some of the results of this analysis are the differences in operating philosophies defined by the rules under which each organization operates. It is worth noting some of these differences to better evaluate the margin of error in some of the elements of this analysis. It is also important to consider GOLDEN STATE philosophy carefully because GOLDEN STATE is the source of the bulk of the data used in this analysis.

GOLDEN STATE Operational Philosophy

GOLDEN STATE is governed by the PUC and its purpose is to earn a return on the operation to the company's investors. PUC rules provide incentives to GOLDEN STATE to invest capital in the water system and the PUC calculates the company's allowable profit (revenue less expenses) at a level that equals 8%-10% return on the investment. Although the PUC is charged with the responsibility of monitoring the company's expenses one can learn from reviewing the DRA reports and rate case testimony, that the appropriate level of expenses is almost always disputed, but rarely with any tangible result. There appears to be very little evidence in the history of rate case documents of efforts by GOLDEN STATE to reduce expenses or to invest capital in cost controls. This is not faulting GOLDEN STATE for there is no incentive to invest in cost reduction, if net revenues are adjusted by the PUC to provide a fixed rate of return. Conversely, there is a significant incentive to gain approval for capital investments that will increase the "rate base" which in turn increases GOLDEN STATE total return on investment. Most disturbing is not only the lack of incentive to control capital costs, but rather the built-in incentive to inflate the cost of projects to yield a larger basis for return.

CASITAS Operational Philosophy

CASITAS is governed by a locally elected board of directors. The rules under which they must operate are dictated by state law which restricts their ability to both raise capital and raise rates. The local voters and CASITAS's customers have a great deal of influence on how the organization operates. Consequently, to be successful the operating philosophy must be focused on cost control, enhancement of the longevity of the water system infrastructure, and expending capital efficiently. Judging the success of CASITAS at applying this philosophy is not the issue of this analysis, rather it is simply noted that the incentive-disincentives to operate under that philosophy will influence the organizations actions.

Historical and Current Data Related to Cost

The historical cost of water service and the current cost of water service to the GOLDEN STATE service area, as well as, the difference in cost when CASITAS rates are applied, are well documented. Any deviation should be within a few percent of the values used.

Projected Costs and Projected Rate Increases

The projected future costs are also well documented. Over 20 years of data has been used to compare the historical rates and rate increases of both organizations and there is no evidence that either organization will deviate significantly from those trends. As the discussion regarding operating philosophy indicates each organization is driven by the governing rules and regulations within which it operates. These rules create incentives and disincentives for action. These rules have been in place throughout the 20 year history used to forecast future costs.

Cost of Acquisition

The cost of purchasing GOLDEN STATE or the fair market value will likely be disputed by GOLDEN STATE. However, the use of the net "Plant in Service" on a progressive scale over a term of acquisition is hard to dispute. There is significant documentation, much of it prepared by GOLDEN STATE, on the basis of the net "Plant in Service" which directly impacts earnings as determined by the "rate base". There is no rational for GOLDEN STATE to understate this value and great incentive to over state the value because profits on the operation are so tightly linked to this value. Also, although a non-PUC regulated company can theoretically make unlimited profits from fully depreciated assets, GOLDEN STATE's profits are directly linked to net "Plant Value". If the "Plant" were fully depreciated the "rate base" would be zero and no return would be allowed. Therefore, if GOLDEN STATE's investment in the un-depreciated "Plant in Service" is fully recovered GOLDEN STATE is not harmed. Ultimately an independent appraisal will be conducted but there is no evidence that the value would deviate significantly from the net "Plant in Service" value.

The capital cost to complete the GOLDEN STATE master plan is documented in GOLDEN STATE reports. The cost of the master plan was used for this analysis because it is believed to be conservatively high. If one examines the historical rate case reports by the DRA and transcripts of testimony GOLDEN STATE cost estimate have been questioned. The DRA has also question the need for some of the very expensive projects proposed by GOLDEN STATE (DRA Aug 2010). Also GOLDEN STATE's master plan priorities will not likely be the priorities of CASITAS. It is hopeful that CASITAS would be influenced by the rules governing its operations and greatly pair down the GOLDEN STATE cost estimates.

The estimated legal costs of acquisition are the most difficult to determine. The range of \$1.0 million to \$4.0 million used in the analysis is the range of error that can be expected.

Funding of Acquisition

The source of funding for acquisition is well document by the saving realized by applying CASITAS rates to the GOLDEN STATE service area. The rate differential of \$3.14 million dollars will easily support a water surcharge of \$2.50 per CCF and provide the residents of the Ojai area with nearly a \$1.0 million

saving in the first year. The projected revenues from the surcharge are based on the lowest water sales in the past 5 years, yet still produce sufficient funds to service the debt on a range of bond issuances of \$18.0 to \$33.0 million dollars. The estimated surplus revenues realized from the water surcharge and surplus revenues from operations will fund all of the needed capital improvements to the Ojai water system within 18-20 years. The 30 year term of the surcharge will provided additional funds to build a reserve to cover any unanticipated capital improvement needs.

The estimated surplus operating revenues realized by CASITAS of \$325,000 are conservative. GOLDEN STATE actual operation costs were used to calculate the surplus. It is expected that CASITAS will be able to operate for less considering that they historically have operated a much larger and more complex water system for proportionally less than GOLDEN STATE operates the Ojai area system. Operating costs are also expected to decline once improvements are implemented to reduce the frequency of service line and pipe leaks.

XIV. CONCLUSION

Water service equal to or better than GOLDEN STATE can be provided to the community of Ojai at a significantly lower cost. Despite an estimated total cost to acquire GOLDEN STATE's system and make needed water system improvements of \$40.5-\$41.5 million dollars, the residents of the GOLDEN STATE Ojai service area can fund the acquisition over a 30 year term and still realize a reduction in current GOLDEN STATE cost. With the acquisition of GOLDEN STATE by CASITAS, and the implementation of a \$2.50 per CCF surcharge Ojai will save nearly \$1.0 million per year beginning in 2011 and \$3.40 million by 2025. All of this can be accomplished while implementing needed system improvements identified in GOLDEN STATE master plan.

The funding option of combined issuance of Revenue Bonds with the use of surplus revenues to finance a "pay-as-you-go" capital improvement plan provides CASITAS with sufficient capital and a long-term cash flow to assure its current rate payers that they will not be left to cover stranded costs or be burdened with the capital costs needed to improve the Ojai Area system. In fact within 18 to 20 years the CASITAS rate payers may well realize a benefit from the enlarged customer base provided by the Ojai Area.

Acknowledgements

This analysis was initiated by the following Ojai residents who have actively participated in the of PUC-Golden State Water Company rate cases over the past years. Through their volunteer efforts they have collected a large volume of information regarding the PUC rate setting process, the economics of the Golden State Water Company's Ojai operations, and the deficiencies in the Ojai area water system.

Bob Daddi - Local Insurance Broker, community activist & most notably a founder of Skate Ojai.

Dale Hanson - Previous business owner in Ojai, Realtor, Government Liaison for the Ojai Board of Realtors and Board member of the Ojai Valley Green Coalition.

Pat McPherson - Retired co-founder of an international electronics engineering and manufacturing company in Carpinteria and the secretary of a mutual water company in the Sierra's.

Stan Greene - Retired heating and air conditioning contractor in Ojai, Board Member of the Ojai Valley Sewer District, head of the Citizens to Preserve Ojai.

Lou Torres - Certified Public Accountant and Tax & Business consultant in Ojai and past Treasurer of both the Rotary Club of Ojai West and Rotary Club of Ojai West Foundation, Inc.

Richard Hajas - Volunteered to prepare this report. He is a 30 year resident of the Ojai Valley and a ten year resident of the City of Ojai. He has over 30 years experience managing the operations and the finances of local water agencies. He managed the operations of the Casitas Municipal Water District as Assistant General Manager and served as the General Manager of the Camrosa Water District in Camarillo for 15 years. Most recently he provided budgeting, planning, and rate design consulting services to the Meiners Oaks Water District.

References

Public Utilities Commission of the State of California, September 23, 2010, *(Res. W-4840), Golden State Water Company (GSWC), Region I. Order Authorizing Surcharges To Recover \$1,227,490 For GSWC's Region I Service Area For Lost Revenues From Reduced Water Consumption By Customers*, San Francisco, California

Golden State Water Company, January 27, 2010, *Amended Application Of Golden State Water Company For An Order Authorizing An Increase In Rates In Its Region I Customer Service Areas, Application No. 10-01-2009*, San Dimas, California

Golden State Water Company, August 2, 2010, *Report on the Maintenance and Capital Improvements of Ojai Customer Service area for years 1999 to 2009*, San Dimas, California

Golden State Water Company, December 31, 2009, *Annual Report of District System Operations of Golden state Water Company to the Public Utilities Commission State of California Year Ended December 31, 2009*, San Dimas, California

Division of Ratepayer Advocates, August 20, 2010, *The Division of Ratepayer Advocates and Golden State Water Company's Supplemental Report on Rate Design in Application 10-01-2009*, San Francisco, California

Public Utilities Commission, June 2001, *Standard Practice For Determing Fixed Capital And Rate Base Of Class B, C And D Water Utilities Standard Practice U-5-Sm*, San Francisco, California

Public Utilities Commission, November 16, 2010, *Standard Practice For Determing Fixed Capital And Rate Base Of Class B, C And D Water Utilities Standard Practice U-5-Sm Decision On The 2010 General Rate Case For Golden State Water Company Region I*, San Francisco, California

Public Utilities Commission, August 2010, *Joint Motion Of The Golden State Water Company And The Division Of Ratepayers Advocates To Approve A Settlement Agreement*, San Francisco, California

Division of Ratepayers Advocates, May 18, 2010, *Report on the Results of Operations of Golden State Water Company Region I Ojai District for Test Year 2011 and Escalation Year 2012 Application 10-01-09*, San Francisco, California

Casitas Municipal Water District, July 2010, *Casitas Municipal Water District 2010-2011 Operations Budget*, Oakview, California

Division of Ratepayers Advocates, August 13, 2010, *Reply Brief Of The Division Of Ratepayer Advocates Application 10-01-009*, San Francisco, California

Exhibit A

Casitas Municipal Water District Boundaries

Board of Directors | Casitas Municipal Water District

h

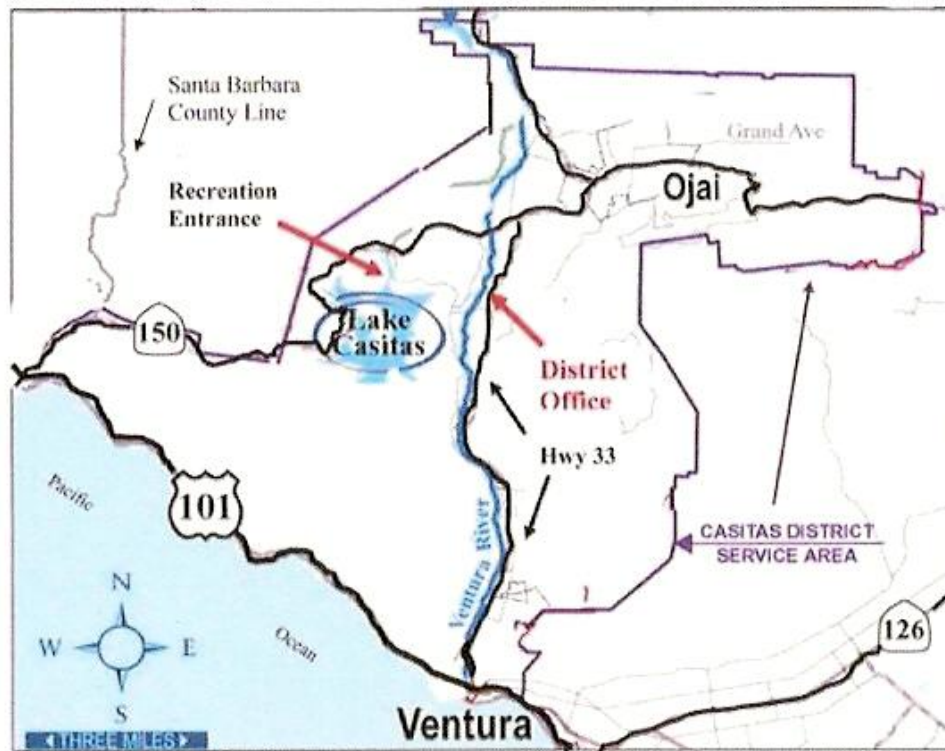


Exhibit B

Approximate Boundaries of Golden State Water Company Service Area

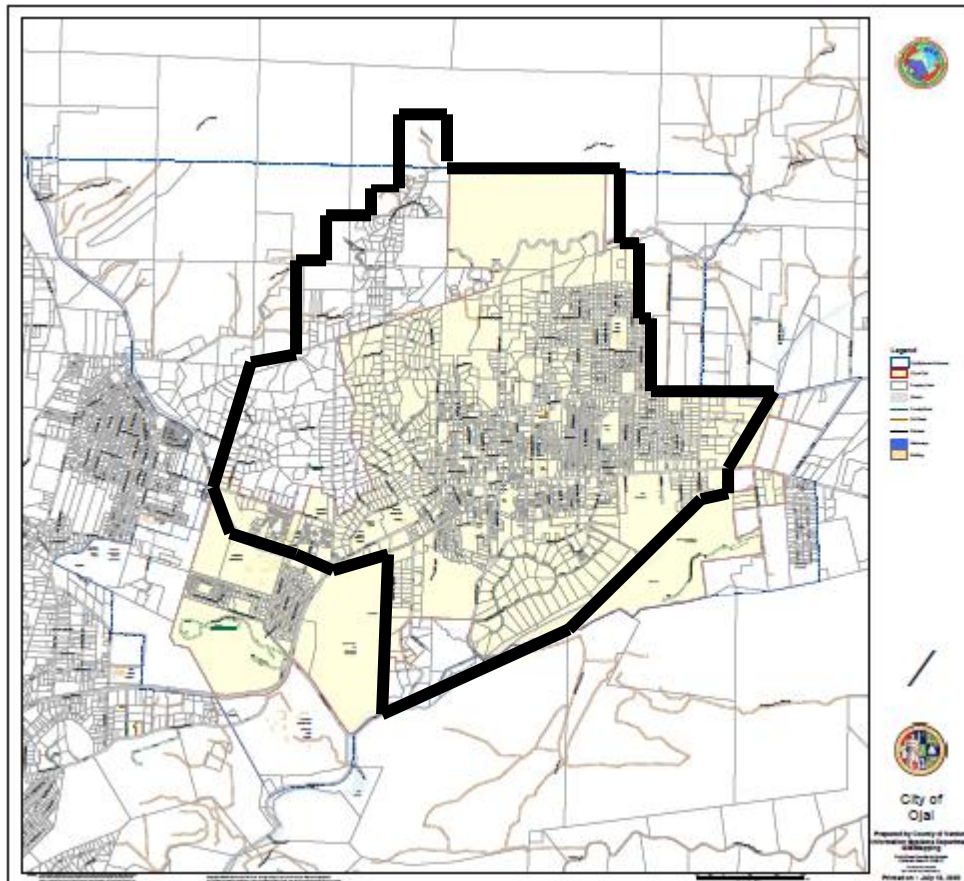


Exhibit C

Exhibit C		
Inventory of Meters by Size and Flow Rating		
	(1)	(2)
Meter Size	Rated Flow	Total
in Inches	in GPM	Meters
5/8	15	1938
3/4	20	195
1	50	543
1 1/2	120	63
2	160	140
3	320	7
4	1000	1
6	2000	2
Total		2889
(1) Ratings based on meters manufactured by Sensus Meter Company.		
(2) From Schedule D-5 "Number of Meters and Services on Pipe System at End of Year" - (Golden State Dec 2009)		

Exhibit D-1

GOLDEN STATE WATER COMPANY
 630 E. FOOTHILL BLVD. - P. O. BOX 9016
 SAN DIMAS, CALIFORNIA 91773-9016

Revised Cal. P.U.C. Sheet No. 5990-W

Canceling Revised Cal. P.U.C. Sheet No. 5779-W

<u>Schedule No. OJ-1</u>		
<u>Ojai District</u>		
<u>GENERAL METERED SERVICE</u>		
<u>APPLICABILITY</u>		
Applicable to all metered water service except public parks.		
<u>TERRITORY</u>		
Ojai and vicinity, Ventura County.		
<u>RATES</u>		
Quantity Rates:		
First 500 cu. ft., per 100 cu. ft.....	\$ 3.340	(I)
Next 1500 cu. ft., per 100 cu. ft.....	\$ 3.596	(I)
Over 2000 cu. ft., per 100 cu. ft.....	\$ 4.202	(I)
Per Meter		
<u>Per Month</u>		
Service Charge:		
For 5/8 x 3/4-inch meter.....	\$ 30.10	(I)
For 3/4-inch meter.....	45.15	(I)
For 1-inch meter.....	75.30	(I)
For 1 1/2 inch meter.....	151.00	(I)
For 2-inch meter.....	241.00	(I)
For 3-inch meter.....	452.00	(I)
For 4-inch meter.....	753.00	(I)
For 6-inch meter.....	1,506.00	(I)
For 8-inch meter.....	2,409.00	(I)
The service charge is a readiness-to-serve charge applicable to all metered service and to which is added the charge for water computed at the Quantity Rates.		
<u>SPECIAL CONDITIONS</u>		
1. All bills are subject to the reimbursement fee set forth on Schedule No. UF.		
2. Pursuant to Decision No. 10-12-059, a surcharge of \$0.033 per Ccf will be applied to all metered customer bills excluding customers that are receiving the CARW credit. This surcharge will offset the CARW credits and CARW administrative program costs recorded in the CARW Balancing Account.		(R)
3. As authorized by the California Public Utilities Commission, an amount of \$0.1845 per Ccf is to be added to the Quantity Rate until the balance in the "WCMA" is fully recovered, approximately 12 months, beginning on the effective date of Advice Letter 1356-WA, which is October 2, 2010. This surcharge will recover the net revenue loss as a result of the Governor's declared drought on June 4, 2008.		(D) (N)
4. As authorized by the California Utilities Commission, an amount of \$0.170 per Ccf for Tier 1, \$0.183 per Ccf for Tier 2 and \$0.214 for Tier 3 is to be added to the quantity rate through April 29, 2011, 12-month from the effective date of Advice Letter 1391-WA on April 30, 2010. This surcharge will recover the under-collection in the WRAM/MCBA Balancing Account as of December 31, 2009.		

Advice Letter No. <u>1429-W</u> Decision No. <u>10-12-059</u>	ISSUED BY R. J. SPROWLS President	Date Filed: <u>December 29, 2010</u> Effective Date: <u>January 1, 2011</u> Resolution No. _____
------------------------------------------------------------------	------------------------------------------------	--------------------------------------------------------------------------------------------------------

Exhibit D-2

GOLDEN STATE WATER COMPANY
 630 EAST FOOTHILL BOULEVARD P.O. BOX 9016
 SAN DIMAS, CA 91773-9016

Revised Cal. P.U.C. Sheet No. 5894-W
 Canceling Revised Cal. P.U.C. Sheet No. 5861-W

<u>Schedule No. OJ-1</u>	
<u>Ojai District</u>	
<u>GENERAL METERED SERVICE</u>	
<u>APPLICABILITY</u>	
Applicable to all metered water service except public parks.	
<u>TERRITORY</u>	
Ojai and vicinity, Ventura County.	
<u>RATES</u>	
Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 500 cu. ft., per 100 cu. ft.....	\$ 2.581
Next 1500 cu. ft., per 100 cu. ft.....	\$ 2.779
Over 2000 cu. ft., per 100 cu. ft.....	\$ 3.247
Service Charge:	
For 5/8 x 3/4-inch meter.....	\$ 24.15
For 3/4-inch meter.....	36.20
For 1-inch meter.....	60.35
For 1 1/2 inch meter.....	121.00
For 2-inch meter.....	193.00
For 3-inch meter.....	362.00
For 4-inch meter.....	604.00
For 6-inch meter.....	1,207.00
For 8-inch meter.....	1,932.00
For 10-inch meter.....	2,777.00
The service charge is a readiness-to-serve charge applicable to all metered service and to which is added the charge for water computed at the Quantity Rates.	
<u>SPECIAL CONDITIONS</u>	
1. All bills are subject to the reimbursement fee set forth on Schedule No. UF.	
2. Effective May 1, 2008, pursuant to Decision No. 08-01-043, a surcharge of \$0.040 per Ccf will be applied to all metered customer bills excluding customers that are receiving the CARW credit. This surcharge will offset the CARW credits and CARW administrative program costs recorded in the CARW Balancing Account.	
3. As authorized by the California Utilities Commission, an amount of \$0.171 per Ccf for Tier 1, \$0.184 per Ccf for Tier 2 and \$0.215 for Tier 3 is to be added to the quantity rate for a period of 12-Months beginning on the effective date of Advice Letter 1393-W. This surcharge will recover the under-collection in the WRAM/MCBA Balancing Accounts as of December 31, 2009	
4. As authorized by the California Public Utilities Commission, a one-time surcredit of \$1.54 is to be applied to customers bills on the effective date of Advice Letter 1410-WB. This surcredit will refund the balance recorded in the Temporary Interest Rate Balancing Account as of May 31, 2010.	
5. As authorized by the California Public Utilities Commission, an amount of \$0.1845 per Ccf is to be added to the Quantity Rate until the balance in the "WCMA" is fully recovered, approximately 12 months, beginning on the effective date of Advice Letter 1356-WA. This surcharge will recover the net revenue loss as a result of the Governor's declared drought on June 4, 2008. (N)	

Advice Letter No. <u>1356-WA</u> Decision No. _____	ISSUED BY R. J. SPROWLS President	Date Filed <u>September 27, 2010</u> Effective Date <u>October 2, 2010</u> Resolution No. <u>W-4840</u>
--------------------------------------------------------	------------------------------------------------	---------------------------------------------------------------------------------------------------------------

Exhibit E-1



9.4.1 Service Charges. A service charge shall be paid by each customer for each billing period during which a service connection or allocation exists. Such charge for any billing period in which such a connection has existed for less than the whole of such period shall be prorated. Such charge shall not entitle the customer to any quantity of water and is in addition to the charges set forth in subsections 9.3.1, 9.3.2, and 9.3.3. The service charge shall be based on the meter manufacturer's recommended maximum flow capacity and the service rate type. The service charge for service shall be as set forth in the rate schedule in subsection 9.4.2. Service connections exist on the date of approval of the Application for Service. Service charges are billed on the date that service connections exist.

9.4.2 RATE SCHEDULE - SERVICE CHARGES

Effective September 1, 2008

METER SIZE		5/8"-3/4"	1"	1-1/2"	2"	2-1/2"	3"	4"	6"	Over 6"	
MAX CAPACITY	GPM	20-30	50	120	160	TEMP 300	320	1000	2000	over 2000	
RESIDENTIAL	Monthly	\$ 22.02	\$ 32.89	\$ 60.06	\$ 92.66	\$ 141.56	\$ 195.90	\$ 348.04	\$ 766.43	\$ 2,667.46	per gpm
	Bi-Monthly	\$ 38.32	\$ 60.06	\$ 114.39	\$ 179.60	N/A	\$ 386.07	\$ 690.36	\$ 1,527.13	\$ 5,334.92	per gpm
BUSINESS	Monthly	\$ 22.02	\$ 32.89	\$ 60.06	\$ 92.66	\$ 141.56	\$ 195.90	\$ 348.04	\$ 766.43	\$ 2,667.46	per gpm
	Bi-Monthly	\$ 38.32	\$ 60.06	\$ 114.39	\$ 179.60	N/A	\$ 386.07	\$ 690.36	\$ 1,527.13	\$ 5,334.92	per gpm
INDUSTRIAL	Monthly	\$ 22.02	\$ 32.89	\$ 60.06	\$ 92.66	\$ 141.56	\$ 195.90	\$ 348.04	\$ 766.43	\$ 2,667.46	per gpm
	Bi-Monthly	\$ 38.32	\$ 60.06	\$ 114.39	\$ 179.60	N/A	\$ 386.07	\$ 690.36	\$ 1,527.13	\$ 5,334.92	per gpm
IRRIGATION/ AG	Monthly	\$ 22.02	\$ 32.89	\$ 60.06	\$ 92.66	\$ 141.56	\$ 195.90	\$ 348.04	\$ 766.43	\$ 2,667.46	per gpm
	Bi-Monthly	\$ 38.32	\$ 60.06	\$ 114.39	\$ 179.60	N/A	\$ 386.07	\$ 690.36	\$ 1,527.13	\$ 5,334.92	per gpm
RESALE(G)	Monthly	\$ 22.02	\$ 32.89	\$ 60.06	\$ 92.66	\$ 141.56	\$ 195.90	\$ 348.04	\$ 766.43	\$ 2,667.46	per gpm
	Bi-Monthly	\$ 38.32	\$ 60.06	\$ 114.39	\$ 179.60	N/A	\$ 386.07	\$ 690.36	\$ 1,527.13	\$ 5,334.92	per gpm
RESALE(P)	Monthly	\$ 22.02	\$ 32.89	\$ 60.06	\$ 92.66	\$ 141.56	\$ 195.90	\$ 348.04	\$ 766.43	\$ 2,667.46	per gpm
	Bi-Monthly	\$ 38.32	\$ 60.06	\$ 114.39	\$ 179.60	N/A	\$ 386.07	\$ 690.36	\$ 1,527.13	\$ 5,334.92	per gpm
OTHER	Monthly	\$ 22.02	\$ 32.89	\$ 60.06	\$ 92.66	\$ 141.56	\$ 195.90	\$ 348.04	\$ 766.43	\$ 2,667.46	per gpm
	Bi-Monthly	\$ 38.32	\$ 60.06	\$ 114.39	\$ 179.60	N/A	\$ 386.07	\$ 690.36	\$ 1,527.13	\$ 5,334.92	per gpm
TEMPORARY	Monthly	\$ 22.02	\$ 32.89	\$ 60.06	\$ 92.66	\$ 141.56	\$ 195.90	\$ 348.04	\$ 766.43	\$ 2,667.46	per gpm
	Bi-Monthly	\$ 38.32	\$ 60.06	\$ 114.39	\$ 179.60	N/A	\$ 386.07	\$ 690.36	\$ 1,527.13	\$ 5,334.92	per gpm
RECREATION	Monthly	\$ 22.02	\$ 32.89	\$ 60.06	\$ 92.66	\$ 141.56	\$ 195.90	\$ 348.04	\$ 766.43	\$ 2,667.46	per gpm
	Bi-Monthly	\$ 38.32	\$ 60.06	\$ 114.39	\$ 179.60	N/A	\$ 386.07	\$ 690.36	\$ 1,527.13	\$ 5,334.92	per gpm

G:\UTIL\BILL\FORMS\RATE SHEET Sept 1, 2008 BASE

Exhibit E-2


 ATTACHMENT A	Effective September 1, 2008 CASITAS MUNICIPAL WATER DISTRICT EXCERPT OF RATES AND REGULATIONS FOR WATER SERVICE																																																																																												
<p>9.3.1 RATE SCHEDULE - CLASS 1 SERVICE</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Residential</td> <td style="width: 30%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td> Bi-Monthly Lifeline</td> <td>0-20 Units</td> <td>\$</td> <td>0.567</td> <td>\$</td> <td>0.831</td> </tr> <tr> <td> Bi-Monthly Usage</td> <td>21-34 Units</td> <td>\$</td> <td>1.003</td> <td>\$</td> <td>1.267</td> </tr> <tr> <td> Bi-Monthly Usage</td> <td>35-100 units</td> <td>\$</td> <td>1.404</td> <td>\$</td> <td>1.668</td> </tr> <tr> <td> Bi-Monthly Usage</td> <td>101 units +</td> <td>\$</td> <td>2.200</td> <td>\$</td> <td>2.484</td> </tr> <tr> <td>Business</td> <td></td> <td>\$</td> <td>1.259</td> <td>\$</td> <td>1.524</td> </tr> <tr> <td>Industrial</td> <td></td> <td>\$</td> <td>1.259</td> <td>\$</td> <td>1.524</td> </tr> <tr> <td>Resale</td> <td></td> <td>\$</td> <td>0.780</td> <td>\$</td> <td>1.403</td> </tr> <tr> <td>Other</td> <td></td> <td>\$</td> <td>1.259</td> <td>\$</td> <td>1.524</td> </tr> <tr> <td>Temporary</td> <td></td> <td>\$</td> <td>1.419</td> <td>\$</td> <td>1.653</td> </tr> <tr> <td>Recreation</td> <td></td> <td>\$</td> <td>1.259</td> <td>\$</td> <td>1.524</td> </tr> </table>	Residential						Bi-Monthly Lifeline	0-20 Units	\$	0.567	\$	0.831	Bi-Monthly Usage	21-34 Units	\$	1.003	\$	1.267	Bi-Monthly Usage	35-100 units	\$	1.404	\$	1.668	Bi-Monthly Usage	101 units +	\$	2.200	\$	2.484	Business		\$	1.259	\$	1.524	Industrial		\$	1.259	\$	1.524	Resale		\$	0.780	\$	1.403	Other		\$	1.259	\$	1.524	Temporary		\$	1.419	\$	1.653	Recreation		\$	1.259	\$	1.524	<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td colspan="2" style="text-align: center;">Effective 09/01/08</td> </tr> <tr> <td colspan="2" style="text-align: center;">Rate per Unit **</td> </tr> <tr> <td style="text-align: center;">GRAVITY</td> <td style="text-align: center;">PUMPED</td> </tr> <tr> <td style="text-align: center;">\$ 0.567</td> <td style="text-align: center;">\$ 0.831</td> </tr> <tr> <td style="text-align: center;">\$ 1.003</td> <td style="text-align: center;">\$ 1.267</td> </tr> <tr> <td style="text-align: center;">\$ 1.404</td> <td style="text-align: center;">\$ 1.668</td> </tr> <tr> <td style="text-align: center;">\$ 2.200</td> <td style="text-align: center;">\$ 2.484</td> </tr> <tr> <td style="text-align: center;">\$ 1.259</td> <td style="text-align: center;">\$ 1.524</td> </tr> <tr> <td style="text-align: center;">\$ 1.259</td> <td style="text-align: center;">\$ 1.524</td> </tr> <tr> <td style="text-align: center;">\$ 0.780</td> <td style="text-align: center;">\$ 1.403</td> </tr> <tr> <td style="text-align: center;">\$ 1.259</td> <td style="text-align: center;">\$ 1.524</td> </tr> <tr> <td style="text-align: center;">\$ 1.419</td> <td style="text-align: center;">\$ 1.653</td> </tr> <tr> <td style="text-align: center;">\$ 1.259</td> <td style="text-align: center;">\$ 1.524</td> </tr> </table>	Effective 09/01/08		Rate per Unit **		GRAVITY	PUMPED	\$ 0.567	\$ 0.831	\$ 1.003	\$ 1.267	\$ 1.404	\$ 1.668	\$ 2.200	\$ 2.484	\$ 1.259	\$ 1.524	\$ 1.259	\$ 1.524	\$ 0.780	\$ 1.403	\$ 1.259	\$ 1.524	\$ 1.419	\$ 1.653	\$ 1.259	\$ 1.524
Residential																																																																																													
Bi-Monthly Lifeline	0-20 Units	\$	0.567	\$	0.831																																																																																								
Bi-Monthly Usage	21-34 Units	\$	1.003	\$	1.267																																																																																								
Bi-Monthly Usage	35-100 units	\$	1.404	\$	1.668																																																																																								
Bi-Monthly Usage	101 units +	\$	2.200	\$	2.484																																																																																								
Business		\$	1.259	\$	1.524																																																																																								
Industrial		\$	1.259	\$	1.524																																																																																								
Resale		\$	0.780	\$	1.403																																																																																								
Other		\$	1.259	\$	1.524																																																																																								
Temporary		\$	1.419	\$	1.653																																																																																								
Recreation		\$	1.259	\$	1.524																																																																																								
Effective 09/01/08																																																																																													
Rate per Unit **																																																																																													
GRAVITY	PUMPED																																																																																												
\$ 0.567	\$ 0.831																																																																																												
\$ 1.003	\$ 1.267																																																																																												
\$ 1.404	\$ 1.668																																																																																												
\$ 2.200	\$ 2.484																																																																																												
\$ 1.259	\$ 1.524																																																																																												
\$ 1.259	\$ 1.524																																																																																												
\$ 0.780	\$ 1.403																																																																																												
\$ 1.259	\$ 1.524																																																																																												
\$ 1.419	\$ 1.653																																																																																												
\$ 1.259	\$ 1.524																																																																																												
<p>9.3.3 RATE SCHEDULE - CLASS 3 SERVICE</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Ag-Residential</td> <td style="width: 30%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td> Monthly Lifeline</td> <td>0-10 Units</td> <td>\$</td> <td>0.567</td> <td>\$</td> <td>0.831</td> </tr> <tr> <td> Monthly Usage</td> <td>11-17 Units</td> <td>\$</td> <td>1.003</td> <td>\$</td> <td>1.267</td> </tr> <tr> <td> Monthly Usage</td> <td>18-50 Units</td> <td>\$</td> <td>1.404</td> <td>\$</td> <td>1.668</td> </tr> <tr> <td>Irrigation (AG)</td> <td>51 units +</td> <td>\$</td> <td>0.588</td> <td>\$</td> <td>0.852</td> </tr> </table>	Ag-Residential						Monthly Lifeline	0-10 Units	\$	0.567	\$	0.831	Monthly Usage	11-17 Units	\$	1.003	\$	1.267	Monthly Usage	18-50 Units	\$	1.404	\$	1.668	Irrigation (AG)	51 units +	\$	0.588	\$	0.852	<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td colspan="2" style="text-align: center;">Rate per Unit **</td> </tr> <tr> <td style="text-align: center;">GRAVITY</td> <td style="text-align: center;">PUMPED</td> </tr> <tr> <td style="text-align: center;">\$ 0.567</td> <td style="text-align: center;">\$ 0.831</td> </tr> <tr> <td style="text-align: center;">\$ 1.003</td> <td style="text-align: center;">\$ 1.267</td> </tr> <tr> <td style="text-align: center;">\$ 1.404</td> <td style="text-align: center;">\$ 1.668</td> </tr> <tr> <td style="text-align: center;">\$ 0.588</td> <td style="text-align: center;">\$ 0.852</td> </tr> </table>	Rate per Unit **		GRAVITY	PUMPED	\$ 0.567	\$ 0.831	\$ 1.003	\$ 1.267	\$ 1.404	\$ 1.668	\$ 0.588	\$ 0.852																																																		
Ag-Residential																																																																																													
Monthly Lifeline	0-10 Units	\$	0.567	\$	0.831																																																																																								
Monthly Usage	11-17 Units	\$	1.003	\$	1.267																																																																																								
Monthly Usage	18-50 Units	\$	1.404	\$	1.668																																																																																								
Irrigation (AG)	51 units +	\$	0.588	\$	0.852																																																																																								
Rate per Unit **																																																																																													
GRAVITY	PUMPED																																																																																												
\$ 0.567	\$ 0.831																																																																																												
\$ 1.003	\$ 1.267																																																																																												
\$ 1.404	\$ 1.668																																																																																												
\$ 0.588	\$ 0.852																																																																																												
<p>** One unit equals 100 cubic feet (748 gallons) Cost per AF (example) Irrigation per AF = \$.588 x 435.6 = \$ 256.13</p>																																																																																													
<p>9.3.4 COMBINATION (CLASS C) SERVICE. Where more than one class of water service or use is provided through a single connection, the General Manager shall make an equitable proration of rates and fees, such proration shall be conclusive unless appealed within 30 days by the customer to the Board, in which case the determination of the Board shall be conclusive.</p>																																																																																													

Exhibit F

Chart A		
Golden State vs. Casitas Charges For Various Types of Customers		
	Golden	Casitas
5/8" Meter - 16 CCF	\$ 115.07	\$ 51.62
5/8" Meter - 26 CCF	\$ 151.14	\$ 62.54
5/8" Meter - 36 CCF	\$ 187.10	\$ 76.01
1.0" Meter - 72 CCF	\$ 366.04	\$ 157.80
2.0" Meter - 145 CCF	\$ 1,102.30	\$ 391.10
Golden State charges based (excluding surcharges) Cal PUC Sheet 5990-W		
Casitas charges based 9.2.4 Rate Schedule (Residential Rates)		

Exhibit G

Chart B					
Golden State and Casitas Historical Increases in Water Charges to "Typical Customer"					
		GSWC	CMWD	GSWC	(4)CMWD
(1)	90	\$ 32.67	\$ 27.00	Increase	Increase
	91	\$ 35.48	\$ 28.32	1.086	1.049
	92	\$ 38.54	\$ 25.59	1.086	0.904
	93	\$ 41.86	\$ 28.13	1.086	1.099
	94	\$ 45.46	\$ 29.14	1.086	1.036
	95	\$ 49.37	\$ 31.07	1.086	1.067
	96	\$ 53.63	\$ 33.06	1.086	1.064
	97	\$ 58.24	\$ 34.02	1.086	1.029
	98	\$ 63.26	\$ 35.07	1.086	1.031
(2)	99	\$ 74.64	\$ 36.94	1.180	1.053
	00	\$ 75.05	\$ 39.26	1.006	1.063
	01	\$ 71.43	\$ 42.41	0.952	1.080
	02	\$ 72.27	\$ 45.02	1.012	1.062
	03	\$ 73.86	\$ 50.76	1.022	1.128
	04	\$ 77.04	\$ 51.62	1.043	1.017
	05	\$ 83.28	\$ 57.16	1.081	1.107
	06	\$ 87.69	\$ 61.32	1.053	1.073
	07	\$ 92.25	\$ 64.95	1.052	1.059
	08	\$ 124.47	\$ 60.94	1.349	0.938
	09	\$ 121.74	\$ 62.54	0.978	1.026
(3)	10	\$ 119.55	\$ 62.54	1.262	
	11	\$ 151.14	\$ 62.54		
Average increase over 20 Years				1.079	1.042
(1) 1990 Charge is from L.A. Times March 22,1990. Rate increase Straight-line average from 1990 to 1999					
(2) Rate of Increases 1999-2009 (Golden State August 2010)					
(3) Includes Surcharges PUC Advise Letter 1393-W					
(4) Casitas Rate History from Casitas Archives Residential Rate					

Exhibit H

Estimated Distribution of Bi-monthly Water Use Among Golden State and Casitas Water Rate Tiers					
Estimated distribution of bi-monthly use among 5/8 & 3/4 metered		Casitas		Golden State	
		CCF	Revenue	CCF	Revenue
=>10	0.98	113954	\$ 94,696	113954	\$ 380,608
=>15	0.9	52326	\$ 43,483	52326	\$ 188,164
=>20	0.75	43605	\$ 36,236	43605	\$ 156,804
=>26	0.6	41861	\$ 53,038	41861	\$ 150,531
=>30	0.4	18605	\$ 23,572	18605	\$ 66,903
=>34	0.3	13954	\$ 17,679	13954	\$ 50,177
=>40	0.2	13954	\$ 23,275	13954	\$ 50,177
=>75	0.01	4070	\$ 6,788	4070	\$ 17,101
Total		302328	\$ 298,767	302328	\$ 1,060,465
Average 5/8 inch service uses :		26.00			
Estimated distribution of bi-monthly use among 1.0' & larger metered		Casitas (*)		Golden State	
		CCF	Revenue	CCF	Revenue
=>10	0.98	113954	\$ 94,696	113954	\$ 380,608
=>20	0.95	110466	\$ 91,797	110466	\$ 397,236
=>34	0.85	138373	\$ 175,319	138373	\$ 497,590
=>40	0.75	52326	\$ 87,280	52326	\$ 188,164
=>75	0.18	73256	\$ 122,192	73256	\$ 307,823
=>100	0.08	23256	\$ 38,791	23256	\$ 97,722
=>150	0.04	23256	\$ 35,442	23256	\$ 97,722
=>250	0.02	23256	\$ 35,442	23256	\$ 97,722
		558144	\$ 680,959	558144	\$ 2,064,586
Totals		860472	\$ 979,726	860472	\$ 3,125,052
			\$ 1.14		
Golden State reported total water service revenues of \$ 4,308,000 in Dec 2009. They also reported 859,187 CCF of water sold. Based on 2880 active services, revenues from meter charges were \$1.92 million resulting in quantitative water revenues of \$2.388 million. (Golden State Dec. 2009)					
Golden State 2009 tiered rates based on PUC Sheet No. 5894-W excluding all surcharges (Exhibit D-2)					
(*) Casitas revenues for sales over 100 CCF are calculated at the CMWD					

Exhibit I-1

SCHEDULE A-1a Utility Plant in Service

Line No.	Acct	Title of Account (a)	Balance Beginning of Year (b)	Additions During Year (c)	Retirements During Year (d)	Other Debits or (Credits) (e)	Balance End of Year (f)
I. INTANGIBLE PLANT							
1	301	Organization	165	-	-	-	165
2	302	Franchises and consents (Schedule A-1b)	5,348	-	-	-	5,348
3	303	Other intangible plant	138,921	174,114	-	(2,169)	310,866
4		Total intangible plant	144,434	174,114	-	(2,169)	316,379
II. LANDED CAPITAL							
5	306	Land and land rights	419,836	-	-	-	419,836
III. SOURCE OF SUPPLY PLANT							
6	311	Structures and improvements	-	-	-	-	-
7	312	Collecting and impounding reservoirs	-	-	-	-	-
8	313	Lake, river and other intakes	-	-	-	-	-
9	314	Springs and tunnels	-	-	-	-	-
10	315	Wells	1,889,636	-	-	-	1,889,636
11	316	Supply mains	175,500	-	-	-	175,500
12	317	Other source of supply plant	-	-	-	-	-
13		Total source of supply plant	2,065,136	-	-	-	2,065,136
IV. PUMPING PLANT							
14	321	Structures and improvements	178,433	-	-	-	178,433
15	322	Boiler plant equipment	-	-	-	-	-
16	323	Other power production equipment	-	-	-	-	-
17	324	Pumping equipment	3,692,819	261,584	(172,092)	261	3,782,572
18	325	Other pumping plant	247,423	-	-	-	247,423
19		Total pumping plant	4,118,675	261,584	(172,092)	261	4,208,428
V. WATER TREATMENT PLANT							
20	331	Structures and improvements	13,090	103,151	-	-	116,241
21	332	Water treatment equipment	503,872	-	(59,544)	3,084	447,412
		Total water treatment plant	516,963	103,151	(59,544)	3,084	563,653

Exhibit I-2

SCHEDULE A-1a Utility Plant in Service (Continued)

Line No.	Acct	Title of Account (a)	Balance Beginning of Year (b)	Additions During Year (c)	Retirements During Year (d)	Other Debits or (Credits) (e)	Balance End of Year (f)
VI. TRANSMISSION AND DIST. PLANT							
1	341	Structures and improvements	-	-	-	-	-
2	342	Reservoirs and tanks	850,618	-	-	-	850,618
3	343	Transmission and distribution mains	4,626,522	416,109	(69)	6,419	5,048,982
4	344	Fire mains	-	-	-	-	-
5	345	Services	3,178,361	116,425	-	-	3,294,786
6	346	Meters	574,063	1,786	-	-	575,850
7	347	Meter installations	-	-	-	-	-
8	348	Hydrants	624,668	17,178	-	-	641,846
9	349	Other transmission and distribution plant	2,692	-	-	-	2,692
10		Total transmission and distribution plant	9,856,924	551,498	(69)	6,419	10,414,773
VII. GENERAL PLANT							
11	371	Structures and improvements	32,601	-	-	-	32,601
12	372	Office furniture and equipment	73,777	444	-	-	74,221
13	373	Transportation equipment	187,701	-	-	-	187,701
14	374	Stores equipment	-	-	-	-	-
15	375	Laboratory equipment	798	-	-	-	798
16	376	Communication equipment	5,483	-	-	-	5,483
17	377	Power operated equipment	18,296	-	-	-	18,296
18	378	Tools, shop and garage equipment	31,602	516	-	-	32,118
19	379	Other general plant	-	-	-	-	-
20		Total general plant	350,258	960	-	-	351,218
VIII. UNDISTRIBUTED ITEMS							
21	390	Other tangible property	1,037	-	-	-	1,037
22	391	Utility plant purchased	-	-	-	-	-
23	392	Utility plant sold	-	-	-	-	-
24		Total undistributed items	1,037	-	-	-	1,037
25		Total utility plant in service	17,473,263	1,091,307	(231,705)	7,595	18,340,460

Exhibit I-3

SCHEDULE A-1d				
DISTRICT RATE BASE AND WORKING CASH				
Line No.	Acct.	Title of Account (a)	Balance 12/31/2009 (c)	Balance 1/1/2009 (d)
RATE BASE				
1		Utility Plant		
2		Plant in Service	18,340,459	17,473,263
3		Construction Work in Progress	359,008	295,363
4		General Office Prorate		-
5		Total Gross Plant (=Line 2 + Line 3 + Line 4)	18,699,467	17,768,626
6		Less Accumulated Depreciation		
7		Plant in Service	4,307,872	3,831,069
8		General Office Prorate		
9		Total Accumulated Depreciation (=Line 7 + Line 8)	4,307,872	3,831,069
10		Less Other Reserves		
11		Deferred Income Taxes	1,023,790	852,742
12		Deferred Investment Tax Credit	29,739	30,843
13		Other Reserves	9,963	7,361
14		Total Other Reserves (=Line 11 + Line 12 + Line 13)	1,063,492	890,946
15		Less Adjustments		
16		Contributions in Aid of Construction	422,538	405,889
17		Advances for Construction	578,740	540,770
18		Other		
19		Total Adjustments (=Line 16 + Line 17 + Line 18)	1,001,278	946,659
20		Add Materials and Supplies	7,735	8,136
21		Add Working Cash (=Line 34)	83,300	83,300
22		Add General Office, Rgions, District office, CSA allocation	299,357	232,398
23		TOTAL DISTRICT RATE BASE		
		(=Line 5 - Line 9 - Line 14 - Line 19 + Line 20 + Line 21)	12,717,219	12,423,786
Working Cash				
24		Determination of Operational Cash Requirement		
25		Operating Expenses, Excluding Taxes, Depreciation & Uncollectible		
26		Purchased Power & Commodity for Resale*		
27		Meter Revenues: Bimonthly Billing		
28		Other Revenues: Flat Rate Monthly Billing		
29		Total Revenues (=Line 27 + Line 28)		
30		Ratio - Flat Rate to Total Revenues (=Line 28 / Line 29)		
31		5/24 x Line 25 x (100% - Line 30)		
32		1/24 x Line 25 x Line 30		
33		1/12 x Line 26		
34		Operational Cash Requirement (=Line 31 + Line 32 - Line 33)	"See attached schedule"	
		* Electric power, gas or other fuel purchased for pumping and/or purchased commodity for resale billed after receipt (metered).		

Exhibit J-1

Based upon the analysis of GSWC’s pipeline replacement program, there is approximately 15 miles of pipeline requiring replacement, all of which GSWC proposes to replace by the year 2026. This will require replacement of 4,500 feet on average per year. The table below shows the planned main replacements and estimated costs over the next several years.

Year	Length (Feet)	Estimated Cost
2010	3,800	\$ 936,600
2011	3,900	\$ 928,600
2012	2,800	\$ 792,000
2013	4,100	\$ 1,230,000
2014	6,100	\$ 1,830,000
2015	6,700	\$ 2,010,000
2016	4,300	\$ 1,290,000
2017	6,450	\$ 1,935,000
2018	4,800	\$ 1,440,000
2019	4,700	\$ 1,410,000
2020	3,600	\$ 1,080,000
2021	4,450	\$ 1,335,000
2022	5,600	\$ 1,680,000
2023	5,500	\$ 1,650,000
2024	4,950	\$ 1,485,000
2025	3,050	\$ 915,000
2026	2,250	\$ 675,000
	77,050	\$ 22,622,200

Exhibit J-2

Running Ridge Tanks. The table below is a summary of the critical non-pipeline projects that must be undertaken in the near future and their estimated costs.

Year	Project Description	Estimate
2013	Fairview Booster Station – Redesign Booster Station, Construct additional pump, Variable Frequency Drive's and Emergency Power	\$400,000
2014	Valley View Booster Station – Relocate to aboveground, Construct Pressure Reducing Valves, Emergency Power and additional booster pump	\$1,000,000
2015	Demolish Running Ridge Tanks	\$150,000
2016	Replace Mutual #4 (63 years old)	\$2,000,000
2017	Replace San Antonio #3 (54 years old)	\$2,000,000

Exhibit K

Water Distribution System Infrastructure

GSWC's Ojai system water main lines date back to the 1920's. The system has a variety of different materials, but mainly Cast Iron and Asbestos Cement. Over 50% of GSWC's distribution system in Ojai is 6 inch in diameter or smaller and is over 40 years old. The following tables provide an inventory of the pipelines in the system and their age:

Percentage of Ojai Pipe Inventory by Size and Year of Installation

	<u>1920- 1939</u>	<u>1940- 1949</u>	<u>1950- 1959</u>	<u>1960- 1969</u>	<u>1970- 1979</u>	<u>1980- 1989</u>	<u>1990- 1999</u>	<u>2000- 2006</u>	Total Percent
2-Inch	2%	3%	1%	0%	1%	1%	0%	13%	1%
3-Inch	0%	0%	2%	0%	0%	0%	0%	1%	1%
4-Inch	19%	36%	31%	9%	9%	3%	5%	1%	13%
6-Inch	5%	42%	38%	60%	62%	26%	19%	12%	38%
8-Inch	26%	9%	15%	31%	27%	70%	72%	63%	37%
10-Inch	4%	10%	14%	0%	1%	0%	0%	0%	3%
12-Inch	44%	0%	0%	0%	0%	0%	4%	10%	7%
Total	14%	5%	17%	22%	14%	21%	5%	2%	100%

Ojai Pipe Inventory by Size and Material (Length in Feet)

	<u>Cast Iron</u>	<u>Steel</u>	<u>AC</u>	<u>Transite</u>	<u>DIP</u>	<u>PVC</u>	<u>Total</u>
2-Inch	890	4262	-	-	-	261	5413
3-Inch	95	1006	-	159	35	-	1295
4-Inch	29382	3170	2755	1728	40	1337	38413
6-Inch	30452	5264	24587	23239	627	5023	89192
8-Inch	8645	9546	26749	17209	3787	20516	86452
10-Inch	4151	4455	-	-	-	-	8607
12-Inch	15328	-	-	-	470	29	15826
Total	88942	27704	54092	42335	4959	27165	245197

Exhibit L-1

SCHEDULE B-2 Operating Expenses - Class A, B, and C Water Utilities

(Respondent should use the group of accounts applicable to its class)

Line No.	Acct.	Account (a)	Class			Amount Current Year (b)	Amount Preceding Year (c)	Net Change During Year Show Decrease in (Parenthesis) (d)
			A	B	C			
I. SOURCE OF SUPPLY EXPENSE								
Operation								
1	701	Operation supervision and engineering	A	B		(6,190)	11,173	(17,363)
2	701	Operation supervision, labor and expenses			C			
3	702	Operation labor and expenses	A	B		1,314	7,180	(5,865)
4	703	Miscellaneous expenses	A			5,503	3,685	1,818
5	704	Purchased water	A	B	C	371,046	336,802	34,244
Maintenance								
6	706	Maintenance supervision and engineering	A	B		-	-	-
7	706	Maintenance of structures and facilities			C			
8	707	Maintenance of structures and improvements	A	B		-	-	-
9	708	Maintenance of collect and impound reservoirs	A			17,099	12,416	4,683
10	708	Maintenance of source of supply facilities		B				
11	709	Maintenance of lake, river and other intakes	A			-	5,411	(5,411)
12	710	Maintenance of springs and tunnels	A			-	-	-
13	711	Maintenance of wells	A			3,728	151,878	(148,150)
14	712	Maintenance of supply mains	A			303	472	(169)
15	713	Maintenance of other source of supply plant	A	B		-	-	-
16		Total source of supply expense				392,804	529,017	(136,213)

Exhibit L-2

SCHEDULE B-2 Operating Expenses - Class A, B, and C Water Utilities (Continued)

(Respondent should use the group of accounts applicable to its class)

Line No.	Acct.	Account (a)	Class			Amount Current Year (b)	Amount Preceding Year (c)	Net Change During Year Show Decrease in (Parenthesis) (d)
			A	B	C			
II. PUMPING EXPENSES								
Operation								
17	721	Operation supervision and engineering	A	B		489	888	(399)
18	721	Operation supervision labor and expense			C			
19	722	Power production labor and expense	A			-	-	-
20	722	Power production labor, expenses and fuel		B				
21	723	Fuel for power production	A			-	-	-
	724	Pumping labor and expenses	A	B		87,297	61,322	25,976
22	725	Miscellaneous expenses	A			3,928	2,355	1,573
23	726	Fuel or power purchased for pumping	A	B	C	217,060	265,455	(48,395)
Maintenance								
24	729	Maintenance supervision and engineering	A	B		745	1,184	(438)
25	729	Maintenance of structures and equipment			C			
26	730	Maintenance of structures and improvements	A	B		20,028	4,936	15,092
27	731	Maintenance of power production equipment	A	B		-	-	-
28	732	Maintenance of pumping equipment	A	B		73,360	67,535	5,825
29	733	Maintenance of other pumping plant	A	B		-	-	-
30		Total pumping expenses				402,907	403,673	(766)
III. WATER TREATMENT EXPENSES								
Operation								
31	741	Operation supervision and engineering	A	B		2,131	1,790	341
32	741	Operation supervision, labor and expenses			C			
33	742	Operation labor and expenses	A			42,564	44,385	(1,821)
34	743	Miscellaneous expenses	A	B		-	-	-
35	744	Chemicals and filtering materials	A	B		31,149	31,524	(376)
Maintenance								
36	746	Maintenance supervision and engineering	A	B		1,814	889	924
37	746	Maintenance of structures and equipment			C			
38	747	Maintenance of structures and improvements	A	B		3,628	1,035	2,593
39	748	Maintenance of water treatment equipment	A	B		10,729	5,733	4,995
40		Total water treatment expenses				92,013	85,356	6,657

Exhibit L-3

SCHEDULED B-2 Operating Expenses - Class A, B, and C Water Utilities (Continued)

(Respondent should use the group of accounts applicable to its class)

Line No.	Acct.	Account (a)	Class			Amount Current Year (b)	Amount Preceding Year (c)	Net Change During Year Show Decrease in (Parenthesis) (d)
			A	B	C			
IV. TRANS. AND DIST. EXPENSES								
Operation								
41	751	Operation supervision and engineering	A	B		15,666	17,740	(2,074)
42	751	Operation supervision, labor and expenses			C			
43	752	Storage facilities expenses	A			1,056	945	111
44	752	Operation labor and expenses		B				
45	753	Transmission and distribution lines expenses	A			1,824	1,410	414
46	754	Meter expenses	A			23,072	40,431	(17,359)
47	755	Customer installations expenses	A			22,900	6,433	16,467
48	756	Miscellaneous expenses	A			37,438	53,624	(16,187)
Maintenance								
49	758	Maintenance supervision and engineering	A	B		3,834	4,020	(187)
50	758	Maintenance of structures and plant			C			
51	759	Maintenance of structures and improvements	A	B		-	-	-
52	760	Maintenance of reservoirs and tanks	A	B		16,269	4,438	11,832
53	761	Maintenance of trans. and distribution mains	A			50,946	191,781	(140,835)
54	761	Maintenance of mains		B				
55	762	Maintenance of fire mains	A			-	-	-
56	763	Maintenance of services	A			62,928	71,210	(8,281)
57	763	Maintenance of other trans. and distribution plant		B				
58	764	Maintenance of meters	A			10,607	6,042	4,565
59	765	Maintenance of hydrants	A			24,858	9,039	15,819
60	766	Maintenance of miscellaneous plant	A			-	-	-
61		Total transmission and distribution expenses				271,397	407,112	(135,715)

Exhibit L-4

SCHEDULED B-2 Operating Expenses - Class A, B, and C Water Utilities (Continued)

(Respondent should use the group of accounts applicable to its class)

Line No.	Acct.	Account (a)	Class			Amount Current Year (b)	Amount Preceding Year (c)	Net Change During Year Show Decrease in (Parenthesis) (d)
			A	B	C			
		V. CUSTOMER ACCOUNT EXPENSES						
		Operation						
	790	Transferred Customer Expenses				41,462	38,516	2,946
62	771	Supervision	A	B		26,259	26,687	(428)
63	771	Superv., meter read., other customer acct expenses			C		-	-
64	772	Meter reading expenses	A	B		60,587	54,114	6,473
65	773	Customer records and collection expenses	A			23,044	26,122	(3,078)
66	773	Customer records and accounts expenses		B			-	-
67	774	Miscellaneous customer accounts expenses	A			-	-	-
68	775	Uncollectible accounts	A	B	C	9,791	9,198	594
69		Total customer account expenses				161,143	154,636	6,507
		VI. SALES EXPENSES						
		Operation						
70	781	Supervision	A	B		-	-	-
71	781	Sales expenses			C			
72	782	Demonstrating and selling expenses	A			293	-	293
73	783	Advertising expenses	A			182	342	(161)
74	784	Miscellaneous sales expenses	A			-	-	-
75	785	Merchandising, jobbing and contract work	A			(2,011)	-	(2,011)
76		Total sales expenses				(1,535)	342	(1,878)

Exhibit L-5

SCHEDULED B-2 Operating Expenses - Class A, B, and C Water Utilities (Continued)

(Respondent should use the group of accounts applicable to its class)

Line No.	Acct.	Account (a)	Class			Amount Current Year (b)	Amount Preceding Year (c)	Net Change During Year Show Decrease in (Parenthesis) (d)
			A	B	C			
		VII. ADMINISTRATIVE AND GENERAL EXPENSES						
		Operation						
	790	Allocation of A&G Expenses				458,697	401,620	57,077
77	791	Administrative and general salaries	A	B	C	20,290	11,510	8,780
78	792	Office supplies and other expenses	A	B	C	37,887	40,799	(2,912)
79	793	Property insurance	A			-	-	-
80	793	Property insurance, injuries and damages		B	C			
81	794	Injuries and damages	A			48,239	39,773	8,466
82	795	Employees' pensions and benefits	A	B	C	158,840	101,939	56,900
83	796	Franchise requirements	A	B	C	5,060	4,153	907
84	797	Regulatory commission expenses	A	B	C	8,137	8,137	(0)
85	798	Outside services employed	A			16,385	13,322	3,062
86	798	Miscellaneous other general expenses		B				
87	798	Miscellaneous other general operation expenses			C			
88	799	Miscellaneous general expenses	A			2,819	5,720	(2,901)
		Maintenance					-	-
89	805	Maintenance of general plant	A	B	C	18,930	9,756	9,174
90		Total administrative and general expenses				775,282	636,730	138,553
		VIII. MISCELLANEOUS						-
91	811	Rents	A	B	C	30,503	29,121	1,382
92	812	Administrative expenses transferred - Credit	A	B	C	-	-	-
93	813	Duplicate charges - Credit	A	B	C	-	-	-
94		Total miscellaneous				30,503	29,121	1,382
95		Total operating expenses				2,124,514	2,245,987	(121,473)

Exhibit O

Data for Chart C				
Total Projected Costs GSWC vs. CMWD Based on Historical Average Rate Adjustments				
Year	Golden State	Casitas	Surcharge	Casitas w/Surcharge
2010	\$ 4,222,000.00	\$ 1,815,068.08		\$ 1,815,068.08
2011	\$ 5,045,716.05	\$ 1,898,606.78	\$ 2,151,180.00	\$ 4,049,786.78
2012	\$ 5,268,736.70	\$ 1,982,525.20	\$ 2,151,180.00	\$ 4,133,705.20
2013	\$ 5,501,614.86	\$ 2,070,152.81	\$ 2,151,180.00	\$ 4,221,332.81
2014	\$ 5,744,786.23	\$ 2,161,653.57	\$ 2,151,180.00	\$ 4,312,833.57
2015	\$ 5,998,705.79	\$ 2,257,198.66	\$ 2,151,180.00	\$ 4,408,378.66
2016	\$ 6,263,848.58	\$ 2,356,966.84	\$ 2,151,180.00	\$ 4,508,146.84
2017	\$ 6,540,710.69	\$ 2,461,144.77	\$ 2,151,180.00	\$ 4,612,324.77
2018	\$ 6,829,810.10	\$ 2,569,927.37	\$ 2,151,180.00	\$ 4,721,107.37
2019	\$ 7,131,687.71	\$ 2,683,518.16	\$ 2,151,180.00	\$ 4,834,698.16
2020	\$ 7,446,908.30	\$ 2,802,129.66	\$ 2,151,180.00	\$ 4,953,309.66
2021	\$ 7,776,061.65	\$ 2,925,983.79	\$ 2,151,180.00	\$ 5,077,163.79
2022	\$ 8,119,763.58	\$ 3,055,312.28	\$ 2,151,180.00	\$ 5,206,492.28
2023	\$ 8,478,657.13	\$ 3,190,357.08	\$ 2,151,180.00	\$ 5,341,537.08
2024	\$ 8,853,413.77	\$ 3,331,370.86	\$ 2,151,180.00	\$ 5,482,550.86
2025	\$ 9,244,734.66	\$ 3,478,617.46	\$ 2,151,180.00	\$ 5,629,797.46

Exhibit P

Data for Chart D			
		Total Project Costs	Total Project Costs
		Golden State	Casitas + Surcharge
Year	\$	\$	\$
2010	119.46	62.54	
2011	151.14	127.54	
2012	163.08	130.31	
2013	175.97	133.19	
2014	189.87	136.21	
2015	204.87	139.36	
2016	221.06	142.64	
2017	238.53	146.08	
2018	257.38	149.66	
2019	277.71	153.40	
2020	299.66	157.31	
2021	323.33	161.39	
2022	348.88	165.65	
2023	376.45	170.10	
2024	406.19	174.75	
2025	438.29	179.60	

Exhibit M

Debt Service of Property Taxes												
Debt Service on Property at \$2.05 per GPM of Meter Capacity to Fund \$35.0 million in General Obligation Bonds												
Meter Size	Rated Flow in GPM (1)	Monthly Assessment	Annual Assessment	Total Meters (2)	Est. (3) Exemptions	Net Taxable	Total Annual Assessment	Allocation By Size	Water use Bi-monthly (4)	Consumption per Meter Size	Annual Cost GSW (5)	Annual CMWD Water Cost
5/8	15	30.75	369	500	0	200	\$ 73,800.00	3.5%	16	48000	\$ 691.06	\$ 309.70
5/8	15	\$ 30.75	\$ 369	1438	0	1438	\$ 530,622.00	25.4%	26	224328	\$ 906.82	\$ 389.69
3/4	20	\$ 41.00	\$ 492	195	4	191	\$ 93,972.00	4.5%	30	35100	\$ 1,173.72	\$ 405.66
1	50	\$ 102.50	\$ 1,230	543	12	531	\$ 653,130.00	31.3%	70	228060	\$ 2,544.00	\$ 926.80
1 1/2	120	\$ 246.00	\$ 2,952	63	4	59	\$ 174,168.00	8.3%	150	56700	\$ 5,469.36	\$ 2,292.22
2	160	\$ 328.00	\$ 3,936	140	16	124	\$ 488,064.00	23.4%	250	210000	\$ 8,440.26	\$ 3,792.28
3	320	\$ 656.00	\$ 7,872	7	4	3	\$ 23,616.00	1.1%	475	19950	\$ 16,014.66	\$ 6,202.62
4	1000	\$ 2,050.00	\$ 24,600	1		1	\$ 24,600.00	1.2%	1400	8400	\$ 39,165.96	\$ 15,114.96
6	2000	\$ 4,100.00	\$ 49,200	2		2	\$ 98,400.00	4.7%	2400	28800	\$ 68,371.56	\$ 27,450.78
Totals					40		\$ 2,086,572.00	100.0%		811338		
(1) Capacities based on Sensus meter company ratings												
(2) GSWC Dec 2009												
(3) Estimated 40 tax exempt properties - actual may vary in number an size												
(4) Water use for 5/8 meter is "typical customer" others in increased in proportion to size only to illustrate examples of cost to each type of customer												
(5) GSWC rates Cal PUC Sheet No. 599-W excluding surcharges												
(6) Total sales based on GSWC 2009 reported actuals (Golden State Dec. 2009)												

Exhibit N

February 15, 2011

Debt Service On Water Rate Surcharge of \$2.50 per CCF						Bi-monthly	Annual	Annual Savings	
Meter Size	Rated Flow in GPM (1)	Total Meters (2)	Water use Bi-monthly (3)	Total Consumption per Meter Size	Bi-monthly GSW (4)	Annual GSW	CMWD W/surcharge	CMWD W/surcharge	per Meter
5/8	15	1938	26	302328	\$ 151.14	\$ 906.82	\$ 127.54	\$ 765.25	\$ 141.56
3/4	20	195	30	35100	\$ 195.62	\$ 1,173.72	\$ 142.61	\$ 855.66	\$ 318.06
1	50	543	70	228060	\$ 424.00	\$ 2,544.00	\$ 329.47	\$ 1,976.80	\$ 567.20
1 1/2	120	63	150	56700	\$ 911.56	\$ 5,469.36	\$ 757.04	\$ 4,542.22	\$ 927.14
2	160	140	225	189000	\$ 1,406.71	\$ 8,440.26	\$ 1,194.55	\$ 7,167.28	\$ 1,272.98
3	320	7	425	17850	\$ 2,669.11	\$ 16,014.66	\$ 2,096.27	\$ 12,577.62	\$ 3,437.04
4	1000	1	1200	7200	\$ 6,527.66	\$ 39,165.96	\$ 5,519.16	\$ 33,114.96	\$ 6,051.00
6	2000	2	2000	24000	\$ 11,395.26	\$ 68,371.56	\$ 9,575.13	\$ 57,450.78	\$ 10,920.78
				860238					
(1) Capacities based on Sensus meter company ratings									
(2) GSWC Dec 2009									
(3) Water use for 5/8 meter is "typical customer" others in increased in proportion to size only to illustrate examples of cost to each type of customer. Customers using more than 100 CCF charged at business rate.									
(4) GSWC rates Cal PUC Sheet No. 5990-W excluding surcharges									



The Facts:

- We pay more than twice as much for water as Casitas customers.
- Golden State raised our water rates by 35% in 2008 and raised them another 26% in 2011.
- In 2011 Golden State will charge us \$5.0 million dollars for water service. Casitas would charge us \$1.89 million for the same service.
- Golden State wants \$27.0 million of our money to fix their system and they want an 8% - 10% return from us on the money invested in the system.
- Golden State is a monopoly. We have no say as to how they spend our money. The PUC does nothing to control spending.
- Golden State averages over 130 leaks a year and loses 15% of our water.
- Golden State's rates are projected to increase 300% by 2025.
- We already own and are part of Casitas. We pay taxes to Casitas. We vote in Casitas elections. Golden State water system is connected to the Casitas system.
- **Stop** paying too much for water
- **Stop** the excessive 25% and 35% water rate increases
- **Stop** policies that discourage conservation
- **Stop** sending millions of dollars a year to corporate headquarters
- **Stop** paying for wasteful water leaks
- **Stop** depending on the Public Utilities Commission (PUC) to protect our interests
- **Stop** paying for ineffective water system improvements
- **Stop** paying for Golden State's endless appeals for more of our money

What we can do:

1. Take control of our water service.
 2. Authorize Casitas to serve us water and the authority to buy the water system from Golden State.
 3. Approve a water surcharge to be added to Casitas regular water rates to pay for the Golden State's system and pay to finally stop the leaks and improve the water system.
 4. Agree to a maximum surcharge of \$2.50 per CCF. We will save \$1.0 million the first year and the average water bill will be 15% less.
 5. Agree that the surcharge will be fixed and will never increase. Agree that it will end in 30 years or before, when the cost of buying Golden State and repairing the system is paid off.
 6. We can petition Casitas. We can vote in Casitas elections.

Or

We can do nothing and trust our future to Golden State and the PUC.
- Go to www.OjaiFlow.com and find out for yourself why we should stop Golden State NOW.**
- It's our time to act!

Community ownership, control and savings
www.OjaiFlow.com

Community ownership, control and savings
www.OjaiFlow.com

Community ownership, control and savings
www.OjaiFlow.com

Why Casitas:

Casitas has 5 interconnects to the Ojai water system in place and operating.

We are part of the Casitas Municipal Water District.

Casitas is taxpayer owned and we already pay taxes to Casitas

We already vote in Casitas Elections.

We have an elected representative on the Casitas Board of Directors.

Casitas has large pipelines that run through Ojai

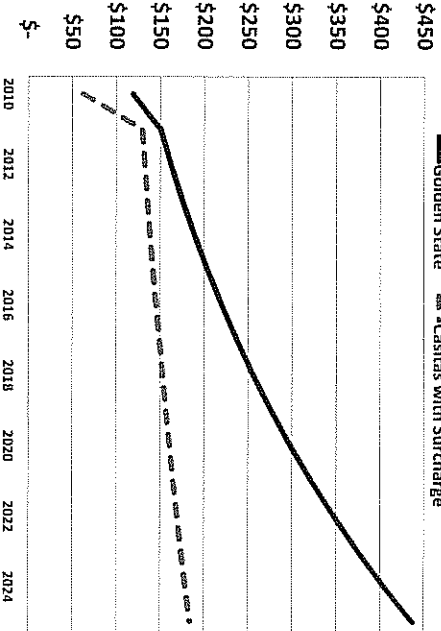
Casitas has the financial and technical resources to operate the Ojai system.

Casitas has a history of low water rates, modest rate increases, and a well maintained water system.

Projected Bi Monthly Cost of Water

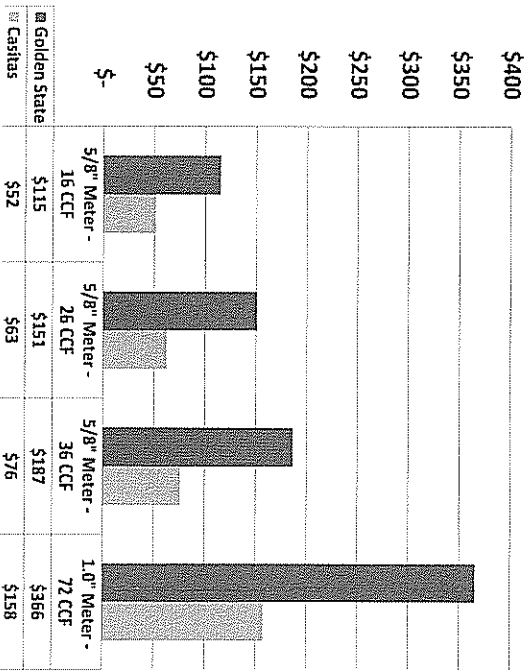
Golden State vs. Casitas Including Surcharge

(Avg. user Based on 20 year history)



1 CCF = 100 Cubic feet of water or 748 gallons

Golden State vs. Casitas Bi Monthly Comparison



Find Out for Yourself

- Go to www.casitaswater.org
- Select Monthly Bill Calculator
- Enter Bi-monthly, Pumped, etc.
- Double the amount because it's monthly
- Add \$2.50 for each CCF (Surcharge to buy Golden State)

The total is what you will pay Casitas after the purchase

How much will it cost?

The cost to buy the Golden State water system is \$15.0 – \$20.0 million.

The cost to fix the Ojai water system is \$15.0 – \$24.0 million

We can pay for all of this with a \$2.50 per CCF added to the Casitas water rate.

For the average Ojai customer our water bill, with the \$2.50 surcharge, will be \$127.50 bi-monthly.

If we stay with Golden State we will pay \$151.50 for the same service.

We will pay Golden State \$445.00 for the same service by 2025.

Casitas water service, even with the \$2.50 surcharge, will be only \$185.00 in 2025.

The surcharge will be fixed, not subject to any rate increases and would expire in 30 years or decrease sooner once everything is paid.

Ojai FLOW - Friends of locally owned water

Petition to Replace Golden State Water Company with Casitas Municipal Water District as the Ojai Area Water Purveyor

I, the undersigned registered voter served by the Golden State Water Company (Golden State) in Ojai, California, hereby petition the Board of Directors of the Casitas Municipal Water District (*Casitas*) to initiate proceedings to cause the following:

- A. Form a revenue improvement district encompassing the Ojai service area of *Golden State*.
- B. Hold an election among the registered voters of the proposed revenue improvement district to consider issuing revenue bonds, not to exceed **\$33,000,000**, for the purposes of purchasing the *Golden State* water system and making needed improvements to that water system.
- C. In addition to the standard *Casitas* rates for like customers apply a water surcharge of **\$2.50** per hundred cubic foot of water on all water served in the improvement district for a period not to exceed **30 years** for the purposes of serving the debt and funding needed improvements. **(one hundred cubic foot or CCF = 748 gallons)**
- D. Replace *Golden State* with *Casitas* as the Ojai area water purveyor.

I sign this petition for the above actions based on the following findings:

- I. *Golden State* is within the *Casitas* district boundaries; the residents have historically paid taxes to *Casitas*, and routinely receive supplemental water from *Casitas*.
- II. This action will result in no change in the place (where) **Ojai** Groundwater Basin water will be used or change in place (where) **Lake Casitas** water will be used, and the actions will result in no increase in overall water demand.
- III. This action will not be a burden to the existing rate payers of *Casitas*.
- IV. The average customer now served by Golden State will realize a 10%-15% reduction in annual water costs in the first year and can look forward to stable future water rates with *Casitas* as their water purveyor.

*I certify under penalty of perjury that I am a registered voter
and served by the Golden State Water Company in Ojai.*

Printed Name: _____

Address: _____ Ojai, CA 93023

Signature: _____ Date: _____

E-Mail: _____ Phone: (805) _____

---- One Signature per Petition ----

Mail Signed Petition to:

Ojai FLOW
C/o State Farm Insurance
105 Vallerio Ave
Ojai, California 93023

Ojai FLOW - Friends of locally owned water

May 23, 2011

Board of Directors
Casitas Municipal Water District
1055 N. Ventura Ave.
Oak View, CA 93022

RE: Submittal of Petitions Collected by Ojai Flow

Members of the Board:

On April 13, 2011 members of Ojai Flow, on behalf of the customers of Golden State Water Company in Ojai, informed your Board of Directors of our intent to circulate a petition to replace Golden State Water Company with Casitas as Ojai's water purveyor. Our petition requests Casitas to form a "revenue improvement district" within the Golden State Water service area of Ojai. The purpose of the "revenue improvement district" is to hold an election among the residents of the newly formed district to consider approval of funding for the purchase of Golden State Water by Casitas.

Ojai Flow's intent has been to secure sufficient signatures to demonstrate to your Board the community's overwhelming support for these actions. In five weeks Ojai Flow's petition has received unanimous resolutions of support from the Ojai City Council and the Ojai Unified School District Board of Directors, and has secured over 1,900 signatures from registered voters served by Golden State Water, which are more than half the 3,367 votes cast in the last general election for the City of Ojai. We believe that we have fulfilled our commitment and have clearly demonstrated the community's strong support for our proposal.

We now place the future of Ojai's water service in your hands. We urge you to act and to act swiftly to bring this matter before the voters. You can expect and you will receive any assistance you may need from Ojai Flow and the community of Ojai throughout this process. We anticipate that it will not be an easy process, but we are confident that together we can successfully secure affordable water service for Ojai and at the same time provide Casitas with a larger, valuable customer base.

Ojai FLOW - Friends of locally owned water

May 23, 2011

For your review and inspection please find enclosed signed original Petitions to Replace Golden State Water Company with Casitas Municipal Water District as the Ojai Area Water Purveyor. Also enclosed is City of Ojai Resolution No. 11-22 and Ojai Unified School District Resolution No. 10-11-36.

Sincerely,

Richard Hajas, 805-640-5833

Pat McPherson, 805-895-3537

Bob Daddi, 805-559-5753

Dale Hansen, 805-798-2302

Lou Torres, 805-432-2449

Stan Greene, 805-798-2686

Ryan Blatz, 805-798-2249

Nicolaus Sommer, 805.218.8025

July 23, 2011

Ojai FLOW NEWSLETTER ----- CALL TO ACTION

Golden State Water Company to make a presentation regarding the Ojai FLOW analysis at the 3:00 PM, Wednesday, July 27, 2011 Board Meeting of the Casitas Municipal Water District. **We encourage all Ojai FLOW supporters to attend** this meeting to find out what Golden State (Management, attorney's and PR spinners) has to say to Casitas. We have asked Casitas to take over Golden State. We also want our friends at Casitas to understand that they have our support as they move forward in the takeover. This is an important meeting so ask your friends, neighbors and anyone you know to attend. Casitas is located in Oak View on the west side of highway 150, about 200 yards north of the Shell Station. **ARRIVE EARLY** as parking and seating may be limited (the board room entrance is at the rear of the building). You can speak or just show up to see what Golden State has to say. But let's remember, Casitas is on our side so let's be courteous and respectful to our host.

Other items of interest

In the news – In case you have not heard, Golden State got caught overpaying a supplier and agreed to payback Ojai customers \$1.2 million dollars. They also had a major water line break on Ojai Avenue the day after the story appeared in the news. Check out the various news articles at <http://www.ojaiflow.com/news/>, and visit it often for a quick update about our water.

Keep them signs up, replace any that have been damaged or removed, and add more. We just received our third shipment! This effort will take some time and it's important we not be seen as giving up. In fact, we plan to have an all community meeting in the fall when Golden State comes out with their next rate increase request. We delivered petitions in record time and it's now up to Casitas to look into the issues. Ojai FLOW feels the math pencils out well and there are huge benefit's to existing Casitas customers to gain 2,900 new hook up's. It's now up to Casitas to review Ojai FLOW's proposal, accept it, or come up with alternatives to present to Ojai Golden State rate payers to vote on. Also, remember to give a thank you and shop at those businesses that have the integrity to join us and put out the Ojai FLOW Sign.

Donations needed – Thanks to all of our supporters, we have some reserves but not enough for a mailing to those that signed the petitions or to have a community meeting. This is an effort that helps all Ojai Golden State rater payers, so why not go to <http://www.ojaiflow.com/donate/> and contribute just \$5. A local business has contributed \$500 as matching money. Contribute \$5, or \$10 it all goes to our account to allow us to keep all informed and keep the fight alive. Your continued support is the key factor in our community's effort to guarantee fairly priced and quality water service to affected Ojai residents and businesses. Thanks.

Ordinance No. 382 constitutes the City of Ojai's franchise agreement with Southern California Water Company.

ORDINANCE NO. 382

ORDINANCE OF THE CITY COUNCIL OF THE CITY OF OJAI, CALIFORNIA, GRANTING TO SOUTHERN CALIFORNIA WATER COMPANY, ITS SUCCESSORS AND ASSIGNS, A FRANCHISE TO LAY AND USE PIPES, DITCHES, FLUMES, CONDUITS AND APPURTENANCES, FOR TRANSMITTING AND DISTRIBUTING WATER FOR ANY AND ALL PURPOSES, IN, ALONG, ACROSS, UPON AND UNDER THE PUBLIC STREETS, WAYS, ALLEYS AND PLACES WITHIN THE CITY OF OJAI.

The City Council of the City of Ojai does ordain as follows:

Section 1. Whenever in this ordinance the words or phrases hereinafter in this section defined are used, it is intended that they shall have the respective meanings assigned to them in the following definitions (unless, in the given instance, the context wherein they are used shall clearly import a different meaning):

(a) The word "Grantee" shall mean the corporation to which the franchise contemplated in this ordinance is granted and its lawful successors or assigns;

(b) The word "City" shall mean the City of Ojai, a municipal corporation of the State of California, in its present incorporated form or in any later reorganized, consolidated, enlarged or reincorporated form;

(c) The word "streets" shall mean the public streets, ways, alleys and places, except state freeways, as the same now or may hereafter exist within said City;

(d) The phrase "pipes and appurtenances" shall mean pipes, pipelines and distribution and transmission systems consisting of mains, distribution and transmission pipes and other properties and facilities, together with services, traps, manholes and other necessary or appropriate appurtenances, for the purpose of transmitting and distributing water.

(e) The phrase "lay and use" shall mean to lay, construct, erect, install, operate, maintain, use, repair, replace, relocate or remove.

Section 2. The right, privilege and franchise, subject to each and all of the terms and conditions contained in this ordinance, and pursuant to and upon the terms and conditions of Division 3, Chapter 2 of the Public Utilities Code of the State of California (the "Franchise Act of 1937"), be and the same is hereby granted to SOUTHERN CALIFORNIA WATER COMPANY, a corporation organized and existing under and by virtue of the laws of the State of California, to lay and use pipes, ditches, flumes, conduits and appurtenances for transmitting and distributing water for any and all purposes, in, along, across, upon and under the public streets, ways, alleys and places within the City.

Section 3. The term of this franchise shall be indeterminate from and after its effective date, that is to say, this franchise shall endure in full force and effect until, with the consent of the Public Utilities Commission of the State of California, it is voluntarily surrendered or abandoned by the Grantee, or until the State or some municipal or public corporation thereunto duly authorized by law shall purchase by voluntary agreement or shall condemn and take under the power of eminent domain, all property actually used and useful in the exercise of this franchise and situate within the territorial limits of the State, municipal, or public corporation purchasing or condemning such property, or until this franchise is forfeited for noncompliance with its terms by the Grantee.

Section 4. For each full or fractional calendar year of the life of this franchise, the Grantee shall pay to the City at the times hereinafter specified, in lawful money of the United States, a sum annually which shall be equivalent to two per cent (2%) of the gross annual receipts of Grantee arising from the use, operation or possession of this franchise; provided, however, that such payment shall in no event be less than one per cent (1%) of the gross annual receipts of the Grantee derived from the sale of water within the limits of the City.

Section 5. The Grantee shall file with the Clerk of the City, within three (3) months after the expiration of the calendar year, or fractional calendar year, following the date of the granting of this franchise, and within three (3) months after the expiration of each subsequent calendar year or fraction thereof during which this franchise is in effect, a verified statement showing in detail for the term of the franchise in such calendar or fractional year, as the case may be, the total gross receipts of the Grantee arising from the use, operation or possession of this franchise and the total gross receipts of the Grantee derived from the sale of water within the City. The Grantee shall pay to the City within fifteen (15) days after the time for filing said statement, in lawful money of the United States, the above required percentage of its gross receipts for the calendar year, or fractional calendar year, covered by said statement. Any neglect, omission or refusal by said Grantee to file said verified statement, or to pay said percentage, at the times or in the manner hereinbefore provided, shall constitute grounds for the declaration of a forfeiture of this franchise and of all rights of Grantee hereunder.

Section 6. This grant is made in lieu of all other franchises, rights, or privileges owned by the Grantee to lay and use pipes and appurtenances in the streets of the City for transmitting and distributing water and the acceptance of the franchise hereby granted shall operate as (i) an abandonment within the limits of the City of all such other franchises, rights and privileges in lieu of which this franchise is granted, and (ii) an agreement to comply with the terms and conditions hereof.

Section 7. The franchise granted hereunder shall not become effective until written acceptance thereof shall have been filed by the Grantee thereof with the Clerk of the City. When so filed, such acceptance shall constitute a continuing agreement of the Grantee that if and when the City shall thereafter annex or consolidate with, additional territory, any and all franchises, rights and privileges owned by the Grantee therein shall likewise be deemed to be abandoned as to all streets within the limits of such territory.

Section 8. The franchise granted hereunder shall not in any way or to any extent impair or affect the right of the City to acquire the property of the Grantee hereof either by purchase or through the exercise of the right of eminent domain, and nothing herein contained shall be construed to contract away or to modify or abridge, either for a term or in perpetuity, the City's right of eminent domain in respect to the Grantee or any public utility. Nor shall this franchise ever be given any value before any court or other public authority in any proceeding of any character in excess of the cost to the Grantee of the necessary publication and any other sum paid by it to the City therefor at the time of the acquisition thereof.

Section 9. The City reserves the right to improve any street or portion thereof over and within the area for which said franchise is granted, including the change of grade, relocation of right-of-way, realignment of right-of-way, change in width, construction or reconstruction of any such street, or any portion thereof. Within thirty (30) days after receipt by Grantee of a notice in writing from the City of the fact that work is to be done pursuant to any such reserved right and specifying the general nature of the work and the area in which the same is to be performed, the Grantee shall do all things necessary to protect its franchise property during the progress of such work and if ordered by the City Council the Grantee shall disconnect, remove, or relocate its pipes and appurtenances within the street to such extent, in such manner, and for such period as shall be necessary to permit the performance of such work: in an economical manner, and in accordance with generally recognized engineering and construction methods, and to permit the maintenance, operation and use of the street as so improved. All of such things shall be done and the work shall be performed by the Grantee at its sole cost and expense. In the event that the City shall hereafter construct, install, reconstruct or repair any bridge or artificial support in or underlying any street in which any pipes or appurtenances of the Grantee are located, and in the event that the cost thereof be increased in order to provide for the installation, maintenance or operation of any such pipes or appurtenances in or on the street area which said bridge or other artificial support covers or underlies, then the Grantee shall pay to the City the full amount of such increase of cost, upon completion of such construction, installation or repair. Any damage done

directly or indirectly to any such public improvement by the Grantee, in exercising directly or indirectly any right, power or privilege under this franchise, or in performing any duty under or pursuant to the provisions of this franchise, shall be promptly repaired by said Grantee, at its sole cost and expense.

Section 10. The Grantee of this franchise shall

(a) construct, install and maintain all pipes and appurtenances in accordance and in conformity with all of the applicable ordinances and rules and regulations heretofore or hereafter adopted by the City Council in the exercise of its police powers and not in conflict with the paramount authority of the State of California, and, as to State highways, subject to the provisions of general laws relating to the location and maintenance of such facilities therein; in constructing, installing and maintaining the pipes and appurtenances the Grantee shall make and backfill all excavations in such manner and way as to leave the surface of the public street, alley, highway, or public place in as good condition as it was prior to said excavation, as well as to conform to the statutes of the State of California and the ordinances of the City of Ojai as they now exist or may hereafter be amended with respect to the securing of permits for excavations, filling and obstructions of the city and state highways;

(b) pay to the City, on demand, the cost of all repairs to public property made necessary by any operations of the Grantee under this franchise;

(c) indemnify and hold harmless the City and its officers from any and all liability for damage proximately

resulting from any operations under this franchise, and be liable to the City for all damages proximately resulting from the failure of said Grantee well and faithfully to observe and perform each and every provision of this franchise and each and every applicable provision of Division 3, Chapter 2 of the Public Utilities Code of the State of California;

(d) remove or relocate, without expense to the City, any facilities installed, used and maintained under this franchise if and when made necessary by any lawful change of grade, alignment or width of any street, or the construction therein or thereunder of any subway, viaduct, sewer, storm drain, pipeline or other improvement, made by the City. This franchise shall not constitute an agreement or undertaking by the City, nor impose upon the City any obligation, to pay any part of the costs of removal or relocation of any of the pipes and appurtenances when required in order to accommodate construction of any state freeway;

(e) file with the City Council within thirty (30) days after any sale, transfer, assignment or lease of this franchise, or any part thereof, or of any of the rights or privileges granted thereby, written evidence of the same, certified thereto by the Grantee or its duly authorized officers; and

(f) promptly repair, at the sole cost and expense of the Grantee and to the complete satisfaction of the City, any damage to any street or public improvement caused directly or indirectly by the Grantee in exercising, directly or indirectly, any right, power or privilege under this franchise or in performing any duty under or pursuant to any of the provisions of this franchise.

Section 11. (a) If the Grantee shall fail, neglect or refuse to comply with any of the provisions or conditions hereof, and shall not, within ten (10) days after written demand for compliance, begin the work of compliance, or after such beginning shall not prosecute the same with due diligence to completion, then the City Council may declare this franchise forfeited.

(b) The City may sue in its own name for the forfeiture of this franchise in the event of noncompliance by the Grantee, its successors or assigns, with any of the conditions hereof.

Section 12. The Grantee shall pay to the City a sum of money sufficient to reimburse it for all publication and posting expenses incurred by it in connection with the granting of this franchise; such payment to be made within thirty (30) days after the City shall furnish such Grantee with a written statement of such expenses.

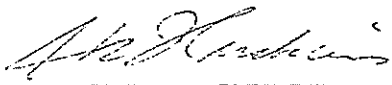
Section 13. The City Clerk shall certify to the adoption of this ordinance and shall cause the same to be posted in three public places within the City of Ojai as now established by ordinance at least once within fifteen (15) days of its final passage. The City Council hereby advises that there are no newspapers of general circulation published within the City. The City Council, however, further directs that for the purpose of giving added notice of the adoption of this ordinance, the same shall be published at least once within fifteen (15) days of its final passage in the Ojai Valley News, a newspaper of general circulation in the City of Ojai. Failure, however, to make such publication shall not invalidate this ordinance. This

Ordinance No. 382.

ordinance shall take effect thirty (30) days after its final passage, unless suspended by referendum petition filed as provided by law.

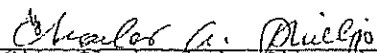
First read at a regular meeting of the City Council of said City on the 27th day of March, 1967, and finally adopted and ordered posted at a regular meeting of said City Council held on the 8th day of May, 1967, by the following vote:

AYES:	Councilmen	<u>Voogd, Burr, Remund, Huckins</u>
NOES:	Councilmen	<u>Hirsch</u>
ABSENT:	Councilmen	<u>None</u>



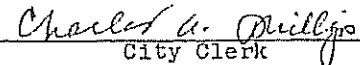
Mayor of the City of Ojai

Attest:



City Clerk of the City of Ojai

I hereby certify that the foregoing is a full, true, and correct copy of Ordinance No. 382. Approved by City Council May 8, 1967.



City Clerk



Administrative Report

DISCUSSION ITEM

TO: CITY COUNCIL

FROM: Steve McClary, Assistant to the City Manager

DATE REPORT PREPARED: April 19, 2011

MEETING DATE: April 26, 2011

SUBJECT: Supporting the Efforts of Ojai FLOW (Friends of Locally Owned Water)

Recommendation

Adopt Resolution No. 11-___, Supporting the Efforts of Ojai FLOW (Friends of Locally Owned Water) to find a local, economical solution for Ojai's water resource needs.

Discussion

A local, grassroots group known as Ojai FLOW (Friends of Locally Owned Water) has recently formed to address growing concerns among residents, businesses and other water customers with the cost of water provided Golden State Water Company (GSWC). Ojai FLOW is attempting to remove one of Ojai's main water providers (and the largest in number of customers served) due to ongoing concerns, primarily with how fast rates are increasing.

Ojai FLOW is also directly concerned with the cost of water paid by Golden State customers as compared to other local water providers. According to an analysis published by Ojai FLOW, GSWC increased water rates by 34.9 percent in 2008 and by another 26.2 percent in January 2011. Based on its own analysis, FLOW believes that "water service of equal or better quality than Golden State can be provided to the community of Ojai at a significantly lower cost."

Casitas Water

Ojai FLOW is currently petitioning the board of Casitas Municipal Water District to consider taking over GSWC's Ojai system. Ojai FLOW asserts that if Casitas water rates were applied to GSWC's Ojai customers, those customers collectively would save \$3.14 million per year based on the current rates charged by both providers. FLOW states that Casitas rates are less than one-half of GSWC rates. As noted by FLOW, Golden State's Ojai service area falls entirely within the boundaries of Casitas. In fact, Casitas provides some supplement water (about 15 percent) to Golden State for its Ojai customers. FLOW also points out that systems of two companies are inter-connected, allowing transfer of water from one system to another. FLOW states that Casitas could purchase Golden State's Ojai system via negotiated sale or eminent domain, with the cost to acquire estimated to be between \$17 million and \$25 million, including legal expenses. FLOW also estimates that the capital needed to complete the water system's master plan (per the plan developed by Golden State) ranges from \$15 million to \$24

million. FLOW envisions that the savings (estimated \$3.14 million per year) to customers from the switch to Casitas would be used to pay off the cost of acquiring the system, and to further improve the system. A surcharge would be added to monthly rates to pay off the debt that would come with purchasing the system from Golden State. Even with this surcharge, FLOW asserts that the typical Ojai water customer now served by Golden State would annually save \$141 under Casitas. Savings are projected to increase over time as the debt is repaid.

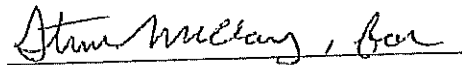
The FLOW analysis only looks at the financial feasibility of Casitas acquiring the system, but does not evaluate the legal feasibility. For purposes of the analysis, FLOW considers Casitas and Golden State to be equal in terms of providing water quality and water service to customers. According to FLOW, they are seeking Casitas to take over the system because Casitas has an existing and historically comparable water rate structure to Golden State. Casitas' boundaries also encompass Golden State's entire Ojai service area. Casitas currently provides water to the local communities of Oak View, Mira Monte, Foster Park, Faria Beach, Solimar Beach, La Conchita and Rincon Del Mar. FLOW notes that Casitas rates have increased an average of 4.2 percent over the past 20 years, while during that same time period, Golden State rates increased 7.9 percent per year on average.

Fiscal Impact

The recommended action has no fiscal impact. The City of Ojai is a customer of Golden State Water and would see a reduction in water costs should rates fall. The City currently pays about \$75,000 a year to Golden State for water. The City would also see a reduction in franchise fees (currently estimated at \$42,000 per year) if rates are lower. Staff has not performed an analysis on what the fiscal impact would be to the City, but any changes are expected to be insignificant.



Submitted by:
Steve McClary, Assistant to the City Manager



Approved for forwarding:
Robert Clark, City Manager

Attachment:

A - Resolution No. 11-___, In Support of the Efforts of Ojai F.L.O.W.

CITY OF OJAI
Resolution No. 11-22

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OJAI, CALIFORNIA,
IN SUPPORT OF THE EFFORTS OF OJAI F.L.O.W. (FRIENDS OF LOCALLY OWNED WATER)
TO FIND A LOCAL, ECONOMICAL SOLUTION
TO OJAI'S WATER RESOURCE NEEDS**

WHEREAS, the City of Ojai benefits when local residents and businesses have access to needed resources in a reliable, economically-feasible manner; and

WHEREAS, one of the most important resources for any community is water; and

WHEREAS, it is in the City's best interests to ensure that residents, businesses and all water customers have access to a quality water supply that meets the needs of the City in terms of its health and economic well-being; and

WHEREAS, the City is concerned that the cost for water paid by local residents and businesses is greater than surrounding communities (and is increasing faster as well), which puts Ojai at an economic disadvantage for attracting new businesses and places an undue financial burden on residents; and

WHEREAS, a local organization known as Ojai F.L.O.W. (Ojai Friends of Locally Owned Water) has organized to find an alternative to the current water supplier, Golden State Water Company, which provides service to the majority of water customers within the City; and

WHEREAS, Ojai FLOW has recently petitioned the Board of Directors of the Casitas Municipal Water District to consider FLOW's proposal that Casitas become the provider to those customers in the City currently served by Golden State.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF OJAI, CALIFORNIA,
DOES HEREBY RESOLVE AND ORDER, AS FOLLOWS:**

SECTION 1. That the City of Ojai supports the efforts of Ojai F.L.O.W. (Ojai Friends of Locally Owned Water) to find a local, economical solution to Ojai's water resource needs.

SECTION 2. That the City of Ojai hereby urges the Board of Directors of Casitas Municipal Water District to seriously study and give due consideration to the proposal by Ojai FLOW to have Casitas become the provider of water to Golden State's Ojai water customers.

PASSED AND ADOPTED this 26th day of April, 2011 by the following vote:

AYES: Blatz, Clapp, Strobel, Smith
NOES: None
ABSENT: Horgan
ABSTAIN: None



Carol Smith, Mayor

ATTEST:



Rhonda K. Basore
Deputy City Clerk/Records Manager

Resolution #10-11-36

In Support of

The Efforts of Ojai FLOW (Friends of Locally Owned Water)

Whereas, it is in the Ojai Unified School District's fiscal interest to support Ojai FLOW's efforts to significantly lower the monthly charges for water in the Golden State Water Company (GSWC) service area; and

Whereas, lower water bills at three of its facilities that are served by GSWC will provide significant savings to the Ojai Unified School District not just in the near future but for decades to come; and

Whereas, a local organization known as Ojai FLOW has been organized to find an alternative to the current water supplier, Golden State Water Company; and

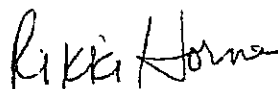
Whereas, Ojai FLOW has recently petitioned the Board of the Casitas Municipal Water District to consider Ojai FLOW's proposal that Casitas become the provider to those customers currently served by Golden State Water Company that include three Ojai Unified School District facilities, and

Now, Therefore, Be It Resolved by the Board of Education of the Ojai Unified School District:

1. That the Board of Education of the Ojai Unified School District supports the efforts of Ojai FLOW to find a local, economical solution for Ojai's water resource needs.
2. That the Board of Education of Ojai Unified School District urges the Board of Directors of the Casitas Municipal Water District to seriously study and give due consideration to the proposal by Ojai FLOW to have Casitas become the provider of water to Golden State's Ojai water customers that include Topa Topa Elementary School, Matilija Jr. High School, and Chaparral High School.

Passed and Adopted by the Governing Board of the Ojai Unified School District this 10th day of May, 2011, by the following vote:

AYES: 5 NOES: 0 ABSTAIN: 0 ABSENT: 0



Rikki Horne
Board of Education
Ojai Unified School District

OJAI UNIFIED SCHOOL DISTRICT

BOARD AGENDA ITEM SUMMARY

MEETING DATE: May 10, 2011

FOR: Action

TITLE: RESOLUTION #10-11-36: In Support of the Efforts of Ojai FLOW (Friends of Locally Owned Water)

EXHIBIT: Resolution #10-11-36

EXPLANATION:

Ojai FLOW is a grassroots effort formed to address growing concerns among some customers of Golden State Water Company (GSWC) over its high water usage rates and costly yearly rate increases. Ojai FLOW believes water service of equal or better quality than GSWC can be provided to customers at a significantly lower cost if Casitas Municipal Water District, a publicly owned water provider, were to buy out GSWC.

Ojai FLOW is currently petitioning the Board of Casitas Municipal Water District to consider buying GSWC in Ojai. If successful, Ojai FLOW estimates a collective savings to Ojai's GSWC customers that include three Ojai Unified School District facilities of \$3.14 million per year. This estimate is based on Ojai FLOW's comparison of the current rates of GSWC to the Casitas Municipal Water District's rates.

Ojai FLOW analyzed Golden State water bills at Topa Topa Elementary, Matilija Jr. High School, and Chaparral High School. Based on this analysis, Ojai FLOW estimates a first-year savings of approximately \$22,000 for the Ojai Unified School District if Casitas Municipal were to become the water provider. Using the past 20-year historical rate increases to project future increases, Ojai FLOW estimates the cumulative savings to OUSD would be \$100,000 in three years and approximately \$600,000 in ten years.

The Board is asked to support the efforts of Ojai FLOW to find a local, economical solution for Ojai's water resource needs.

RECOMMENDATION:

Approve Resolution #10-11-36.

Motion by: P. Mercado Second by: K. Smith Vote: Y 5 N 0 A 0

Bob Daddi

From: "Bob Daddi" <djdaddi@roadrunner.com>
Date: Tuesday, July 26, 2011 7:11 PM
To: "Darlene Daddi" <djdaddi@roadrunner.com>
Subject: Fw: Re:

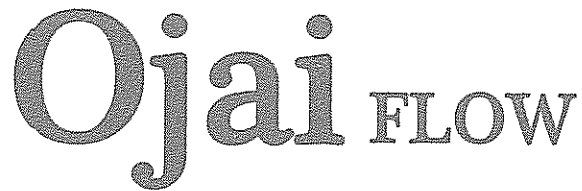
From: Richard H. Hajas
Sent: Monday, July 25, 2011 12:45 PM
To: Bob Daddi
Subject: Re:

Bob,
Boyd's bill would be as follows:

GSW - \$575.45 -
CMWD- \$154.47
VRCWD - \$154.63
MOWD - \$122.32

In 2015 the projected cost for Boyd would be:
GSW - \$751.65 (based on new rate proposal)

Richard H. Hajas
hajas@sbcglobal.net
805.640.5833



REC'D AUG 03 2011

Friends of locally owned water

901 Grand Ave., Ojai, CA 93023 . 805.895.3537 . info@OjaiFlow.com

July 30, 2011

California Public Utilities Commission
Public Advisor's Office
320 West 4th St., Ste. 500
Los Angeles, CA 90013

RE: Protest of Golden State Water Company July 21, 2011 Application No. 11-07-XXX for Ojai CA. Service Area

Members of the Commission:

Ojai Flow is a group of Golden State Water Company customers in Ojai, California. Our small community of less than four square miles has 2,900 water connections, yet we will be charged over \$5.0 million dollars for water service this year for water pumped from beneath our city. If we applied the average water rates of our neighbors in the remaining 150 square mile Ventura River Watershed, we would pay less than \$2.0 million for the same service. Golden State's most recent application for rate increases could cost our community over \$6.8 million per year by 2015.

Ojai Flow was created in response to the outrageous amount paid by Ojai water users compared to others in our area. In less than five weeks, Ojai Flow was able to collect 1,900 signatures, nearly 60% of the votes cast in the 2010 general election, to petition Casitas Municipal Water District to replace Golden State as Ojai's water purveyor. For your Commission's information we have included copies of the petitions, City of Ojai and Ojai Unified School District Resolutions, and a copy of the feasibility study prepared by Ojai Flow volunteers.

As evidenced by the petitions we gathered, Ojai is obviously unhappy with Golden State, but we are also unhappy with the lack of protection we have received from the CalPUC. The CalPUC Commission has

Community ownership...Community control...Community savings

www.OjaiFlow.com

failed, over several decades, to protect Ojai from a company that has a single mission, extract as much money from the community as the Commission will allow. The Commission has allowed far too much money to be taken from our community through continuous large rate increases often justified by extremely expensive, and often unnecessary, infrastructure projects, leaving us with little returned value. Even with the exorbitant rates, Golden State has failed to maintain our water system's infrastructure. This is not just a failure on Golden State Water's part, but also a failure by the Commission.

State's rates have been double the surrounding community for decades, so why has the system been allowed to deteriorate? By failing to ensure that our money would be spent judiciously in order to One of the Commission's primary duties is to assure that the water infrastructure is maintained, yet after 80 years of selling water to Ojai, Golden State now claims their system is in disrepair. Golden adequately maintain our water infrastructure, we are subjected to constant rate increases and a water system that is in severe disrepair. Because the Commission has failed to maintain fair and reasonable water rates in Ojai, and failed to ensure that Golden State meets its obligations to adequately maintain the water infrastructure, the quality of life and economic viability of Ojai are severely threatened.

We at Ojai Flow are attempting to organize Ojai's citizens in order to reduce the cost of water to the citizens of Ojai and to fight for fairness in the constant requests for large rate increases, but The CalPUC rate case process is at best not consumer friendly, and at worst is deliberately antagonistic to the consumer. Ojai water consumers are at the mercy of a water utility armed with skilled rate case experts. Case records are filled with Golden States testimony and demands for higher rates, yet consumer's concerns are conspicuously absent. Our only voice in the process is the CalPUC Department of Rate Advocates. Historically, Commission decisions have overwhelmingly favored Golden State and generally ignore the DRA recommendations. The Public Advisor's Office offers some assistance as well, but they are severely understaffed and constantly overworked. Our recent efforts to communicate with the Public Advisor's Office regarding Ojai Flow's involvement in the process was delayed by two weeks because no one could call us back as they were out of town organizing public hearings. When we finally did hear back from them, the deadline had passed for submitting a protest on the latest rate issue.

Our water rates are unfair and unreasonably high. When one compares Golden State's water rates to water purveyors on the same watershed, utilizing similar water supplies as those used by Golden State here in Ojai, one sees that water rates are over double all other purveyors. When accounting for profit, taxes and any special advantage a publicly owned utility may have, Golden State's rates are still unreasonably high. Their rates are unreasonably high because their operating expenses, before profit and taxes, are unreasonably high. Their administrative overhead is high. The cost of their capital projects is extraordinarily high. Even though the Commission is charged with maintaining "reasonable water rates," there is little or no evidence in the record that the Commission has ever defined what constitutes a "reasonable" water rate for the Ojai area, and the Commission has certainly not considered the "competitiveness" of a water rate with neighboring water purveyors as a criteria for setting Golden State' "reasonable" rates.

One of Golden State's latest justifications for a rate increase is their claim that a water conservation program has resulted in reduced water consumption. This supposed justification is a sham. There is no evidence that the decline in water sales is a result of their minimal conservation efforts. in This

Community ownership...Community control...Community savings

www.OjaiFlow.com

dramatic reduction in sales can be attributed to one very simple fact, high water rates. The people of Ojai are not using less water because they are conserving water; they are using less water because they are conserving money. Also, Golden State water is required in their Urban Water Management Plan to use pricing to reduce the amount of water used, but now they are claiming they didn't plan on water usage going down so now they need to recoup the money through a surcharge. These tactics reveal Golden State's never ending demand for higher rates, and the process has forced Ojai consumers to employ extraordinary measures to cut back water use. Residents of Ojai are being denied the reasonable rates for water enjoyed by neighboring communities within the Ventura Watershed. The result of this unfair reallocation of water resources is a systematic reduction in the quality of life in Ojai. Our little four square mile area inside the Ventura River Watershed is being threatened by Golden State's incorrigible thirst for rate increases. We are asking the Commission for protection from their corporate greed, and for help in stopping the systematic reduction of the value in our real estate and the loss of businesses in Ojai that are served by Golden State.

We are hopeful that our bid to replace Golden State will be successful; however, we know it will be a long process. In the meantime, the Commission has an obligation to protect us from Golden State's unreasonable rates and failure to maintain our water infrastructure. Water is our most important resource and its cost affects our lives in numerous ways. The continued free reign of Golden State and its band of rate cases experts without the protection of the CalPUC will mean a substantive change in our quality of life. We know the Commission has several new appointments and we genuinely hope that this new Commission will take a fresh look at what is happening, not only to us, but other small communities who feel as powerless as Ojai. We hope that one day we will look back at this time and applaud the success of the new Commission in its dedication to ensure all communities of California, no matter how small, pay a fair, reasonable, and competitive water rate.

We are unclear, as was the Public Advisor's Office, as to exactly how many separate rate increases Golden State now has pending for Ojai. We have routinely received notices with little explanation and no reference to prior requests. We are therefore protesting any further rate increase to the Ojai service area of Golden State on the following grounds:

1. Prior Commissions have unfairly ignored consumer concerns.
2. Golden State has failed to use decades of rate increases to properly maintain the system. No further capital improvement should be funded through rate increases until a comprehensive analysis of the system is reviewed by the Commission.
3. Golden State's current rates are unreasonably high. A simple measure of reasonableness is a comparison of rates for similar service, with similar sources of water supply, and served over similar topography. Some allowances then can be made for the unique advantages or disadvantages of individual water purveyors. Currently, under any reasonableness test, Golden State's rates are unreasonable and non-competitive.
4. Ojai water consumption has already declined 25% in past five years. No further rate increase should be approved without an independent analysis of the sensitivity of future water demand in Ojai to the price of water. How far is the Commission willing to go to allow Golden State to squeeze profits from declining water consumption through ever high rates? We believe, as a principle, that rate increases should never be authorized due to declining water sales. A consumer should have the absolute right to refuse to use a service and not be charged an

Community ownership...Community control...Community savings

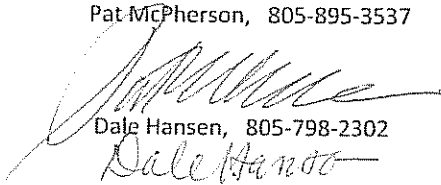
www.OjaiFlow.com

additional amount due to their choice. Charging someone more for something because they used less of it is unreasonable and unfair.

We look forward to working with all the Commission members and we are hopeful that the Commission will tip the scales of fairness, if not in the consumers' favor, at least closer to a reasonable balance.

Sincerely,

Pat McPherson, 805-895-3537

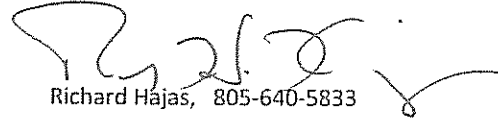


Dale Hansen, 805-798-2302

Lou Torres, 805-432-2449



Ryan Blatz, 805-798-2249



Richard Hajas, 805-640-5833



Bob Daddi, 805-559-5753



Stan Greene, 805-798-2686

ENCL:

Copies of Signed Petitions to Replace Golden State Water Company with Casitas Municipal Water District
City of Ojai Resolution No. 11-22
Board of Directors of the Ojai Unified School District Resolution No. 10-11-36

Cc:

CalPUC Division of Ratepayers Advocates
Governor Jerry Brown
California State Senator Tony Strickland
Ventura County Supervisor Steve Bennett
Ojai City Manager
General Manager Casitas Municipal Water District

Community ownership...Community control...Community savings

www.OjaiFlow.com

CITY OF OJAI
Resolution No. 11-22

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OJAI, CALIFORNIA,
IN SUPPORT OF THE EFFORTS OF OJAI F.L.O.W. (FRIENDS OF LOCALLY OWNED WATER)
TO FIND A LOCAL, ECONOMICAL SOLUTION
TO OJAI'S WATER RESOURCE NEEDS**

WHEREAS, the City of Ojai benefits when local residents and businesses have access to needed resources in a reliable, economically-feasible manner; and

WHEREAS, one of the most important resources for any community is water; and

WHEREAS, it is in the City's best interests to ensure that residents, businesses and all water customers have access to a quality water supply that meets the needs of the City in terms of its health and economic well-being; and

WHEREAS, the City is concerned that the cost for water paid by local residents and businesses is greater than surrounding communities (and is increasing faster as well), which puts Ojai at an economic disadvantage for attracting new businesses and places an undue financial burden on residents; and

WHEREAS, a local organization known as Ojai F.L.O.W. (Ojai Friends of Locally Owned Water) has organized to find an alternative to the current water supplier, Golden State Water Company, which provides service to the majority of water customers within the City; and

WHEREAS, Ojai FLOW has recently petitioned the Board of Directors of the Casitas Municipal Water District to consider FLOW's proposal that Casitas become the provider to those customers in the City currently served by Golden State.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF OJAI, CALIFORNIA,
DOES HEREBY RESOLVE AND ORDER, AS FOLLOWS:**

SECTION 1. That the City of Ojai supports the efforts of Ojai F.L.O.W. (Ojai Friends of Locally Owned Water) to find a local, economical solution to Ojai's water resource needs.

SECTION 2. That the City of Ojai hereby urges the Board of Directors of Casitas Municipal Water District to seriously study and give due consideration to the proposal by Ojai FLOW to have Casitas become the provider of water to Golden State's Ojai water customers.

PASSED AND ADOPTED this 26th day of April, 2011 by the following vote:

AYES: Blatz, Clapp, Strobel, Smith
NOES: None
ABSENT: Horgan
ABSTAIN: None



Carol Smith, Mayor

ATTEST:



Rhonda K. Basore
Deputy City Clerk/Records Manager

OJAI UNIFIED SCHOOL DISTRICT

BOARD AGENDA ITEM SUMMARY

MEETING DATE: May 10, 2011

FOR: Action

TITLE: RESOLUTION #10-11-36: In Support of the Efforts of Ojai FLOW (Friends of Locally Owned Water)

EXHIBIT: Resolution #10-11-36

EXPLANATION:

Ojai FLOW is a grassroots effort formed to address growing concerns among some customers of Golden State Water Company (GSWC) over its high water usage rates and costly yearly rate increases. Ojai FLOW believes water service of equal or better quality than GSWC can be provided to customers at a significantly lower cost if Casitas Municipal Water District, a publicly owned water provider, were to buy out GSWC.

Ojai FLOW is currently petitioning the Board of Casitas Municipal Water District to consider buying GSWC in Ojai. If successful, Ojai FLOW estimates a collective savings to Ojai's GSWC customers that include three Ojai Unified School District facilities of \$3.14 million per year. This estimate is based on Ojai FLOW's comparison of the current rates of GSWC to the Casitas Municipal Water District's rates.

Ojai FLOW analyzed Golden State water bills at Topa Topa Elementary, Matilija Jr. High School, and Chaparral High School. Based on this analysis, Ojai FLOW estimates a first-year savings of approximately \$22,000 for the Ojai Unified School District if Casitas Municipal were to become the water provider. Using the past 20-year historical rate increases to project future increases, Ojai FLOW estimates the cumulative savings to OUSD would be \$100,000 in three years and approximately \$600,000 in ten years.

The Board is asked to support the efforts of Ojai FLOW to find a local, economical solution for Ojai's water resource needs.

RECOMMENDATION:

Approve Resolution #10-11-36.

Motion by: P. Mercado Second by: K. Smith Vote: Y 5 N 0 A 0

Resolution #10-11-36

In Support of

The Efforts of Ojai FLOW (Friends of Locally Owned Water)

Whereas, it is in the Ojai Unified School District's fiscal interest to support Ojai FLOW's efforts to significantly lower the monthly charges for water in the Golden State Water Company (GSWC) service area; and

Whereas, lower water bills at three of its facilities that are served by GSWC will provide significant savings to the Ojai Unified School District not just in the near future but for decades to come; and

Whereas, a local organization known as Ojai FLOW has been organized to find an alternative to the current water supplier, Golden State Water Company; and

Whereas, Ojai FLOW has recently petitioned the Board of the Casitas Municipal Water District to consider Ojai FLOW's proposal that Casitas become the provider to those customers currently served by Golden State Water Company that include three Ojai Unified School District facilities, and

Now, Therefore, Be It Resolved by the Board of Education of the Ojai Unified School District:

1. That the Board of Education of the Ojai Unified School District supports the efforts of Ojai FLOW to find a local, economical solution for Ojai's water resource needs.
2. That the Board of Education of Ojai Unified School District urges the Board of Directors of the Casitas Municipal Water District to seriously study and give due consideration to the proposal by Ojai FLOW to have Casitas become the provider of water to Golden State's Ojai water customers that include Topa Topa Elementary School, Matilija Jr. High School, and Chaparral High School.

Passed and Adopted by the Governing Board of the Ojai Unified School District this 10th day of May, 2011, by the following vote:

AYES: 5 NOES: 0 ABSTAIN: 0 ABSENT: 0



Rikki Horne
Board of Education
Ojai Unified School District

Ojai FLOW - Friends of locally owned water

Petition to Replace Golden State Water Company with Casitas Municipal Water District as the Ojai Area Water Purveyor

We, the undersigned registered voters served by the Golden State Water Company (*Golden State*) in Ojai, California, hereby petition the Board of Directors of the Casitas Municipal Water District (*Casitas*) to initiate proceedings to cause the following:

- A. Form a revenue improvement district encompassing the Ojai service area of *Golden State*.
- B. Hold an election among the registered voters of the proposed revenue improvement district to consider issuing revenue bonds, not to exceed **\$33,000,000**, for the purposes of purchasing the *Golden State* water system and making needed improvements to that water system.
- C. In addition to the standard *Casitas* rates for like customers apply a water surcharge of **\$2.50** per hundred cubic foot of water on all water served in the improvement district for a period not to exceed **30 years** for the purposes of serving the debt and funding needed improvements. (**one hundred cubic foot or CCF = 748 gallons**)
- D. Replace *Golden State* with *Casitas* as the Ojai area water purveyor.

The signatures to this petition base their requests for the above actions on the following findings:

- I. *Golden State* is within the *Casitas* district boundaries; the residents have historically paid taxes to *Casitas*, and routinely receive supplemental water from *Casitas*.
- II. This action will result in no change in the place (where) **Ojai** Groundwater Basin water will be used or change in place (where) **Lake Casitas** water will be used, and the actions will result in no increase in overall water demand.
- III. This action will not be a burden to the existing rate payers of *Casitas*.
- IV. The average customer now served by Golden State will realize a 10%-15% reduction in annual water costs in the first year and can look forward to stable future water rates with *Casitas* as their water purveyor.

1. Printed Name:

Address: _____ Ojai, CA 93023

Phone: (805) _____ E-mail: _____

Signature: _____

2. Printed Name:

Address: _____ Ojai, CA 93023

Phone: (805) _____ E-mail: _____

Signature: _____

3. Printed Name:

Address: _____ Ojai, CA 93023

Phone: (805) _____ E-mail: _____

Signature: _____

4. Printed Name:

Address: _____ Ojai, CA 93023

Phone: (805) _____ E-mail: _____

Golden State Water Company

Presentation to
Casitas Municipal Water District
August 17, 2011



Facts About Golden State Water Company

- Founded 1929
- Second largest investor-owned water company in California
- Regulated by the California Public Utilities Commission
- 256,000 Service Connections
- Serving 10 counties and 75 cities
- 38 water systems; 250 wells; three surface water treatment plants; 2,780 total miles of pipe
- 600 employees
- 24/7/365 customer service center

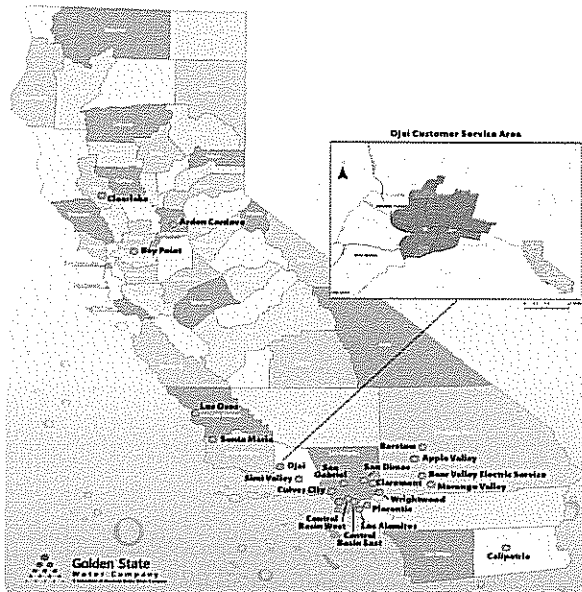


Serving Ojai Since 1929

- Acquired Ojai Domestic Water Company with 400 service connections in 1929
- Purchased the Ojai Mutual Water Company in the early 1960's
- Approximately 2,900 service connections today
- Five wells, 46 miles of pipeline
- 1,900 Acre Feet of water rights (average)
- Six local GSWC employees with almost a century of water experience
- Founding member of Ojai Chamber of Commerce



Golden State Water Company Service Areas



GSWC is Committed to Ojai

The Ojai system is not for sale.



The Condemnation Process in California

- Identify condemning authority
- LAFCO process
- Prepare appraisal
- Pre-condemnation offer and negotiations
- Resolution authorizing condemnation
- Election on tax increase to fund condemnation (2/3 vote)
- Phase I: Bench trial on "right to take" and public necessity
- Phase II: Jury trial on valuation
- Not a free look: Owner's fees paid upon abandonment
- Generally a 5-10 year process (with appeals)



The Standard of Value in California

The current fair market value of all the company assets as of the date of valuation – not simply what is reflected in Rate Base.

California law says: Fair market value is the highest price for the property a willing buyer would pay in cash to a willing seller.

Fair Market Value \neq Rate Base

- CPUC allows investor owned water utilities the opportunity to earn a **specified** rate of return on the original cost of **their** Rate Base.
- Rate Base **is the** original cost of **certain specified utility assets that are in service less accounting (or book) depreciation.**

Rate Base is a statement of the water utility's historical cost of investment in the system as defined by specific accounting rules and regulations – not fair market value.

Special Purpose Property:

*“ . . . a **limited market property** with a **unique physical design, special construction material, or layout that restricts its utility to the use for which it was built.**”*

Water systems are special purpose properties.

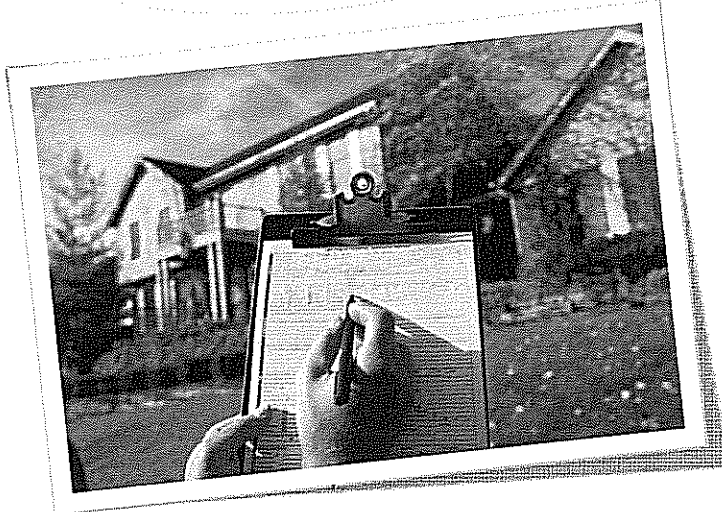


Three Approaches Typically Considered in Valuing Utility Property:

- Market Approach
- Cost Approach
- Income Approach



Market Approach



Cost Approach



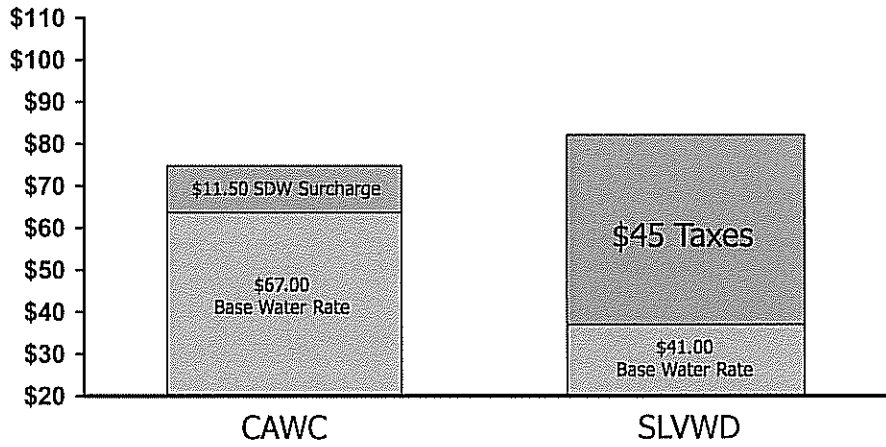
Income Approach



California American Water Felton Timeline and Costs

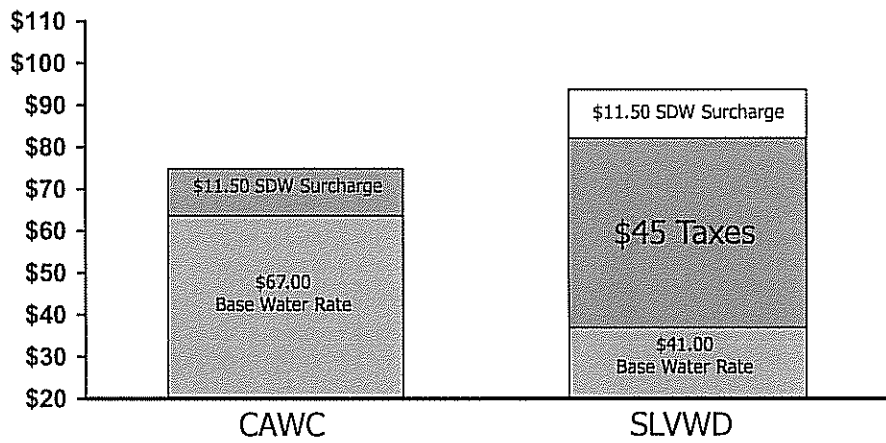
- January 2002 – California American acquires Felton system
- November 2002 – Officials estimated cost of takeover at \$2 million
- July 2005 – \$11 million G/O Bonds approved to fund takeover
- February 2007 – Eminent domain filed
- May 2008 – SLVWD pays \$13.4 million for system
 - \$10,100 per customer
- Takeover expenses – \$1 million on studies, legal and expert fees as of December 2007.

Felton Rate Comparison As of Takeover (Sept. 2008)



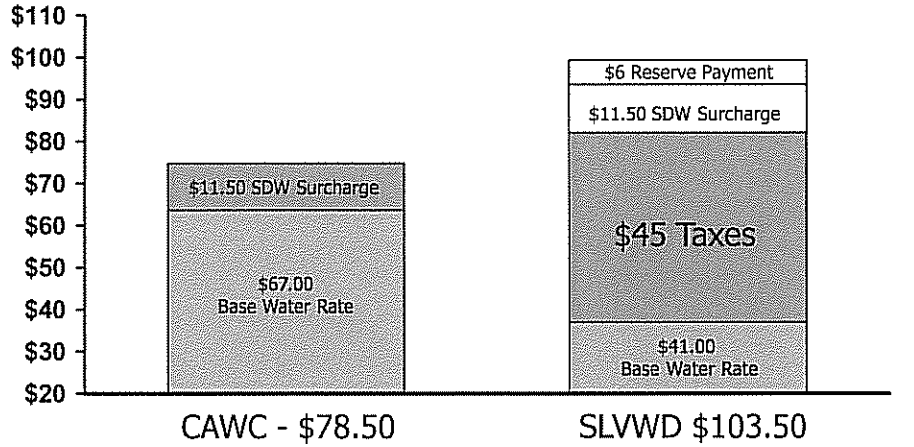
Monthly Costs (10 CCF Usage)

Felton Rate Comparison As of Takeover (Sept. 2008)



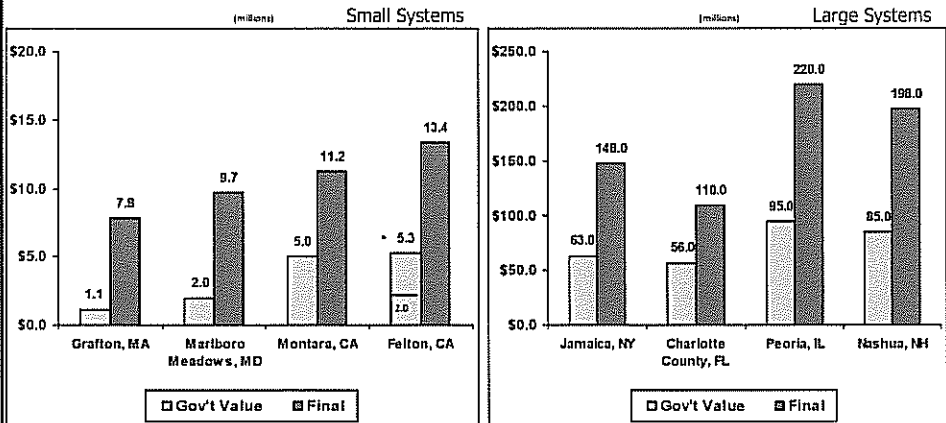
Monthly Costs (10 CCF Usage)

Felton Rate Comparison As of Takeover (Sept. 2008)



Monthly Costs (10 CCF Usage)

Government Valuation vs. Actual Price



*operating assets



City of Peoria, IL decided not to buy the water system.

Fundamental Flaws in the FLOW Report

- ❖ Not a Financial "Feasibility" Analysis
- ❖ Not an Independent & Unbiased Report
- ❖ Not an Appraisal
 - ❖ Author is not an appraiser or bond expert
 - ❖ No attempt to follow appraisals standards
 - ❖ Misleading and incorrect estimate of values
 - ❖ Rate Base does not equal Fair Market Value
 - ❖ Fails to include all system assets
 - ❖ Fails to include operating costs
 - ❖ Ignores value of water rights
- ❖ No factual basis to support decrease in Ojai water rates
- ❖ No factual basis to support proposed financing scheme



GSWC is Committed to Ojai

The Ojai system is not for sale.



Thank You for This
Opportunity



BAKER DONELSON

BEARMAN, CALDWELL & BERKOWITZ, PC

Joe A. Conner

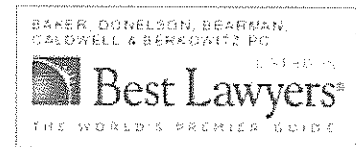


Shareholder

1800 Republic Centre
633 Chestnut Street
Chattanooga, Tennessee 37450

T: 423.752.4417
F: 423.752.9527

Joe A. Conner, managing shareholder in the Chattanooga office, has significant experience in a wide range of commercial litigation, with a focus on representing private utilities and businesses in eminent domain actions. He also has significant construction law experience in drafting contracts, as well as litigation. He represents clients in dealing with governmental entities on such topics as zoning, property development and regulatory affairs. His eminent domain practice is national in scope. He has developed a network of experts in various fields to assist in creating a comprehensive and proactive approach to complex business valuation cases and construction cases for optimal results.



Recent Representative Engagements

- Represented the Chattanooga Electric Power Board ("EPB") in two actions instituted by a national cable company and the state cable trade association to block EPB's entry into the internet and cable television business. Result: Both cases summarily dismissed and affirmed on appeal.
- Represented Pennichuck Water Works in a condemnation action filed by the City of Nashua, New Hampshire. Result: New Hampshire Public Utilities Commission valued the 25,000 customer water system at \$203 million (approximately \$8000 per customer) and awarded an additional \$40 million in severance damages. In March 2010, the New Hampshire Supreme Court affirmed the entire valuation award.
- Represented California American Water in a condemnation action filed by the San Lorenzo Valley Water District. Result: California American Water's Felton water system fair market value set at \$13.4 million (approximately \$10,300 per customer).
- Represented Illinois American Water (IAW) in a takeover action instituted by City of Peoria, Illinois, under a franchise buyout option. The City placed the value at \$95 million. The issue of fair market value was arbitrated before a panel of three appraisers in January 2005. Result: Company valued at \$220 million; City then ended its efforts to buy the IAW assets in Peoria District after voters rejected the takeover by a margin of 82-18 percent.
- Represented Tennessee American Water in a condemnation action filed by City of Chattanooga, Tennessee. Result: Condemnation dismissed and company's state chartered franchise ruled perpetual.
- Represented Kentucky American Water in takeover action filed by Lexington, Kentucky. Result: After long legal battle, a new council was elected and condemnation action was dismissed.

Publications & Speaking Engagements

- Speaker – California Water Association Spring Meeting (2010)
- Speaker – NAWC Annual Meeting (October 2009)
- Speaker – NAWC Water Utility Executive Council Spring Meeting (2009)
- Speaker – California Water Association Fall Meeting (2008)
- Speaker – New England Conference of Public Utility Commissioners (June 2006)
- Speaker – National Association of Water Companies Spring Meeting (April 2006)

Professional Honors & Activities

- Listed in *The Best Lawyers in America*® since 2005 in the areas of Commercial Litigation, Construction Law, Eminent Domain and Condemnation Law, and Energy Law
- Listed in *Mid-South Super Lawyers* since 2006
- Member – American and Tennessee Bar Associations
- Member – National Association of Water Companies
- Board Member – Tennessee Automotive Manufacturers Association (TAMA), 2010
- Member – Hamilton County Board of Education, 1996-2008
 - Chairman, 2006-2007

Admissions

- Tennessee, 1986

Education

- University of Tennessee at Knoxville, J.D., 1986
- University of Tennessee at Chattanooga, B.A., 1983, *cum laude*

EXPAND YOUR EXPECTATIONS

© 2011 Baker, Donelson, Bearman, Caldwell & Berkowitz, PC



BOARD OF SUPERVISORS
COUNTY OF VENTURA

GOVERNMENT CENTER, HALL OF ADMINISTRATION
800 SOUTH VICTORIA AVENUE, VENTURA, CALIFORNIA 93009

MEMBERS OF THE BOARD

KATHY I. LONG, Chair
STEVE BENNETT
LINDA PARKS
PETER C. FOY
JOHN C. ZARAGOZA

STEVE BENNETT
SUPERVISOR, FIRST DISTRICT
(805) 654-2703
FAX: (805) 654-2226
E-mail: steve.bennett@ventura.org

September 8, 2011

California Public Utilities Commission
Public Advisor's Office
320 West 4th St., Ste. 500
Los Angeles, CA 90013

RE: Protest of Golden State Water Company July 21, 2011 Application No. A1107017
for Ojai CA Service Area

Dear Commissioners:

As the County Supervisor for the Ojai Service area, I object to the subject rate increase request and implore the Commission to undertake a detailed and thorough review to keep any rate increase to the minimum.

The request includes items for increased rates to pay for Golden State's increased income taxes- it is offensive that Ojai water customers would pay the income taxes on Golden State's increased profits. The customers have derived no such income, and the shareholders that derive the income owe the taxes associated with that income, not the ratepayers.

The rate increase request includes substantial amounts for capital improvements. While undoubtedly some capital improvements are needed, your own recent audit of Golden State's capital improvements, which I applaud, reveals serious management and accounting deficiencies. No capital improvements should be funded with ratepayer funds without a thorough and detailed CPUC review of every proposed improvement and expenditure. Further, the CPUC must identify and exclude those current system deficiencies that result from inadequate maintenance. The ratepayers have paid for

CPUC
September 8, 2011
Page 2

system maintenance, and if they have not received that maintenance, they should not now be billed for it twice.

The rate increase request includes the full funding of a new billing system. The CPUC must not only assess the need for this billing system on a cost-benefit basis and reject any system that does not financially benefit the ratepayers, but also assure that the financial benefit of any new system funded by the ratepayers accrues to the ratepayers.

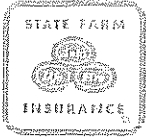
The above are few examples of the review of the rate increase that must be performed by the CPUC prior to granting the increase. As your recent audit of Golden State has revealed, far greater and more regular oversight must be exercised by the CPUC to assure that customers are protected from overcharges and unnecessary or inflated capital expenditures.

In conclusion, I protest the rate increase as sought by Golden State, and implore the CPUC to perform as thorough a review of the proposal, current operations, and past practices as feasible before granting any increase.

Cordially,

A handwritten signature in black ink that reads "Steve Bennett". The signature is written in a cursive, flowing style.

Steve Bennett
Supervisor, First District



BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



In the matter of the Application of the Golden State Water Company (U133S) for an order authorizing it to increase rates for water service by \$2,911,400 or 29.9% in 2011 and by \$321,200 or 2.5% in 2012 in its Arden Cordova Service Area; to increase rates for water service by \$1,782,400 or 33.2% in 2011 and by -\$66,200 or -0.9% in 2012 in its Bay Point Service Area; to increase rates for water service by \$409,100 or 22.6% in 2011 and by \$23,300 or 1.0% in 2012 in its Clearlake Service Area; to increase rates for water service by \$1,467,000 or 48.5% in 2011 and by \$50,100 or 1.1% in 2012 in its Los Osos Service Area; to increase rates for water service by \$1,647,900 or 38.8% in 2011 and by \$343,200 or 5.9% in 2012 in its Ojai Service Area; to increase rates for water service by \$2,350,700 or 25.2% in 2011 and by \$363,200 or 3.1% in 2012 in its Santa Maria Service Area and; to increase rates for water service by \$799,500 or 6.5% in 2011 and by \$213,000 or 1.6% in 2012 in its Simi Valley Service Area.

Application 10-01-009
(Filed January 13, 2010)

REPLY BRIEF
OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

"If it ain't broke, don't fix it." Unfortunately, Golden State Water Company (GSWC) does not follow that philosophy. GSWC's existing wells can and do and will continue to meet Maximum Day Demand (MDD), but GSWC is still asking for over \$10 million for new and replacement wells. Similarly, GSWC has numerous pipelines that have no history of leakage and relatively little risk of failure, but GSWC is still asking for



over \$16 million for new and replacement pipelines. GSWC's request is inflated, and the Commission should reject it.

II. GSWC'S REQUEST TO DRILL AND EQUIP WELLS

GSWC's attitude toward wells and other infrastructure is that "it is always good to have a spare." Under GSWC's approach, if your system needs four wells to meet Maximum Day Demand, you should have five wells, just in case one goes down. This might not be a bad approach in systems served by 10 or 12 wells, but in systems served by one or two wells, it is not cost effective. It makes sense to carry a spare wheel and tire in a car, but it does not make so much sense on a motorcycle – or unicycle. A patch kit is enough.

The problem with GSWC's approach is exacerbated by the fact that a spare well, whether needed or not, costs over \$2 million. According to GSWC, they need to spend \$2,207,000 on new Mutual Well #6 in the Ojai System. (GSWC Opening Brief, p. 2.)¹ And they need to spend \$2,551,700 to replace the Country Club Well in the Edna Road System. (Id., p. 8.) And they want another \$2,551,700 for a new Foxencanyon Well #5 in the Sisquoc Sytem. (Id., p. 10.) And \$2,080,800 for a new Vineyard Well #6 in the Lake Marie System. (Id., p. 14.) And \$2,817,800 to replace Tanglewood Well #2 in the Tanglewood System. (Id., p. 16.)

The cost to ratepayers for all of these spare wells is simply too high. Rather than prioritizing, and asking for funding just for the wells it may need the most, GSWC has presented a wish list, presumably in the hopes that it will get something off that list.

The reality is that none of these wells is needed. All of the systems – Ojai, Edna Road, Sisquoc, Lake Marie, and Tanglewood – are capable of meeting maximum day demand without the new wells. The California Department of Public Health does not require the new wells.² DRA's Opening Brief spelled out in detail why each and every well requested by GSWC is unnecessary, and nothing in GSWC's Opening Brief rebuts

¹ Or they could spend \$221,313 over the next four years in maintenance. (Id., p. 7.)

² Pursuant to Title 22 C.C.R. Section 64554(c). (DRA Opening Brief, p. 3.)



that conclusion. GSWC has failed to meet its burden of proof to show that the wells are needed.

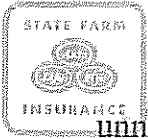
Regardless of the significant differences between the various systems, GSWC has consistently and vigorously objected to considering alternatives to drilling new wells, such as enhanced maintenance, storage, outside purchases, or trucking. The systems are not all the same: for example, the Ojai and Tanglewood systems have interconnections to other systems, while the Sisquoc system currently serves only 72 residences and a school. While GSWC claims that disaster is imminent, the only solution they can come up with is (the expensive one of) drilling new wells. GSWC has failed to show that new wells are the only answer, and has failed to meet its burden to prove to this Commission that ratepayers should pay for any of the new wells that GSWC wants.

III. GSWC'S REQUEST TO ADD OR REPLACE PIPELINES

To support its pricey "Pipeline Replacement Program," GSWC attempts a mix of scare tactics ("Massive, contemporaneous failure of significant portions of GSWC's pipeline distribution system is expected...", GSWC Opening Brief, p. 19) and technical-sounding mumbo-jumbo ("sophisticated statistical analyses," "KANEW Modeling," "objective data," "Consequence and Likelihood Matrices," id. p. 20).

The reality is that GSWC's pipeline replacement program is akin to the oil companies telling you to change your car's oil every 3000 miles. What they have proposed may not be inherently wrong, but it is far from cost effective. GSWC's program is not warranted at this time, and the costs of the program add up much more quickly than they need to. While the idea of a regular, scheduled, replacement program may be okay, the record in this case does not support GSWC's extremely aggressive schedule.

It is reasonable for the Commission to consider the factors of a pipeline's age, leak history, and life expectancy in determining whether a particular pipeline needs to be replaced. (DRA Opening Brief, p. 14.) The additional factors suggested by GSWC, however, such as "Risk Reduction" and "Hydraulic and Fire Flow Deficiencies" are



unnecessary, and appear mostly designed to give GSWC additional rationales and more discretion to find pipelines that “need” replacement.

✓ The question that needs to be answered is simple: does this pipeline need to be replaced? GSWC’s extraordinarily complex, multi-layered analysis turns this simple question into a convoluted Rube Goldberg device that does nothing but obscure the answer to that essential question.

As GSWC explains it, its Pipeline Replacement Program consists of three separate analyses:

1) Risk Assessment Analysis

This consists of a “Consequence Matrix” and a “Likelihood Matrix,” each of which contains: 1) categories, 2) weighting factors, and 3) four levels of severity, and are used to assign an “overall risk score” to each pipeline. This is designed to determine the likelihood of a pipeline failing, and the consequences of such failure. (GSWC Opening Brief, pp. 20-21.)

2) KANEW Modeling

This estimates the length of pipe that should be replaced each year in a given system based on the age and material of all pipelines in the system. It does not appear to focus on specific segments. (GSWC Opening Brief, p. 21.)

3) Pipe Replacement Prioritization Analysis

This process is particularly complex. As GSWC describes it:

First, all the available information for Region I is compiled and used to assign each pipeline project four different Prioritization Evaluation Criteria scores. The Prioritization Evaluation Criteria scores are determined by evaluating the information for each pipeline against the four Prioritization Evaluation Criteria set forth in the PRP, which are: (1) Risk Reduction; (2) Hydraulic and Fire Flow Deficiencies; (3) Pipe Material Type and Age; and (4) Leak Frequency. The Prioritization Evaluation Criteria scores are then weighted using a weighting factor so that criteria that are most determinative as to whether a pipeline should be replaced receive the most consideration.



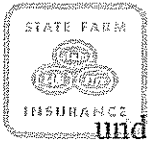
The final step in the prioritization process is to input each project's Prioritization Evaluation Criteria scores into the pipeline prioritization tool. The pipeline prioritization tool uses a quantitative method of assigning priority to recommended pipeline projects in each distribution area based on the Prioritization Evaluation Criteria scores. The result of this analysis is the total benefit score, which is then matched to the results of the KANEW Model analysis to determine the pipeline projects GSWC requested in this proceeding. The end results of this comprehensive pipeline replacement analysis are set forth in Appendix N to the PRP ("Appendix N"). (GSWC Opening Brief, p. 22.)

X This process has too many steps where GSWC can put its finger on the scale and control the outcome. The "Risk Assessment Analysis" contains both a "Consequence Matrix" and "weighting factors;" the KANEW modeling only indicates how much pipeline may need replacing, not what specific pipelines do need replacing; and finally the "Pipe Replacement Prioritization Analysis" has "Risk Reduction" as a criterion, and again uses a weighting factor, plus a separate "pipeline prioritization tool."

X GSWC's methodology is akin to the emperor's new clothes – it has no real substance. While GSWC's methodology carries the cachet of scientific objectivity and a rational decision-making processes, it is subject to manipulation and misuse, and it is heavily dependent upon subjective evaluations of factors such as risk, weighing factors and GSWC's financial interest in augmenting its ratebase.

X The Commission should reject GSWC's proposed methodology for its Pipeline Replacement Program. It is virtually impossible for the Commission to determine, based on GSWC's methodology, if a particular pipeline segment actually needs to be replaced. In order for the Commission to approve rate recovery for pipeline replacement, it needs to know that the pipeline really needs to be replaced. Otherwise, those rates are not just and reasonable.

DRA's recommended approach – that the Commission consider the age, life expectancy, and leak history of specific pipeline segments – is much more workable and



understandable. DRA's approach is in fact much simpler and far more transparent than GSWC's approach, and allows the Commission to be sure it is only approving replacement of pipelines that actually need to be replaced.

GSWC mischaracterizes DRA's recommended approach as "simplistic" and "one-dimensional," and claims that DRA's use of the quote, "it is not cost-effective to replace most pipes before, or even after, the first break", from the American Water Works Association (AWWA) publication "Dawn of the Replacement Era," was taken out of context. (GSWC Opening Brief, p. 23.)

The reality is that DRA's approach is both simpler and more defensible than GSWC's convoluted approach, but that does not make it simplistic. And here is the context that DRA's quote appeared in:

Of course, every city has a different demographic history. In addition, numerous local factors will affect the life of a utility's pipes and therefore its Nessie Curve.³ Each utility has a unique set of circumstances and therefore a different set of infrastructure funding challenges in the future. Nonetheless, demographics will produce the same type of lagged replacement schedule in any major city.

If that were not enough of a challenge, there is an important corollary. As pipe assets age, they tend to break more frequently. But it is not cost-effective to replace most pipes before, or even after, the first break. Like the old family car, it is cost-efficient for utilities to endure some number of breaks before funding complete replacement of their pipes.

Considering the huge wave of aging pipe infrastructure created in the last century, we can expect to see significant increases in break rates and therefore repair costs over the coming decades. This will occur even when utilities are making efficient levels of investment in replacement that may be several times today's levels. In the utilities studied by AWWA, there will be a three-fold increase in repair costs by

³ The "Nessie Curve" is "a graph of the annual replacement needs in a particular utility, based on when pipes were installed and how long they are expected to last in that utility before it becomes economically efficient to replace them." It is named after the Loch Ness monster. (Id. p. 12)



the year 2030 despite a concurrent increase of three and a half times in annual investments to replace pipes.

It is important to note that a Nessie Curve is a prediction, not a destiny. That is, a utility can choose to manage its infrastructure replacement needs in various ways. For example, the utility may accept increased break repair costs up to a point and delay the replacement of an old pipe, rehabilitate certain pipes to “buy time,” or adopt other asset management techniques to extend the life of the pipes as long as possible. Nevertheless, it appears inevitable that many utilities will face substantial increases in infrastructure investments over the next 30 years, to replace pipes laid down as long as 120 years ago. (AWWA Publication “Dawn of the Replacement Era, May 2001, p.13. Emphasis added, footnotes omitted.)

It is not clear how this supports GSWC’s position. In fact, it reinforces DRA’s position, by emphasizing that it is reasonable for utilities such as GSWC “to extend the life of the pipes as long as possible.”

GSWC seems to be trying to claim that its Pipeline Replacement Program is a proactive attempt to deal with this long-term issue. If that program focused on the pipeline’s age, leak history, and life expectancy (as both DRA and the AWWA publication do⁴) that might be a reasonable claim.

GSWC’s Pipeline Replacement Program fails to provide a usable methodology to support Commission approval of rate recovery for replacement pipelines. It is too complex and too opaque, and lets GSWC re-weight the criteria to be used. The Commission should reject both the program and the recommendations that flow from it. Simply put, GSWC’s showing on this issue does not meet the burden of proof the

⁴ AWWA clearly focuses on pipeline age and life expectancy: “Water utilities must make a substantial reinvestment in infrastructure over the next 30 years. The oldest cast iron pipes, dating to the late 1800s, have an average life expectancy of about 120 years. Because of changing materials and manufacturing techniques, pipes laid in the 1920s have an average life expectancy of about 100 years, and pipes laid in the post-World War II boom can be expected to last about 75 years. The replacement bill for these pipes will be hard on us for the next three decades and beyond.” (AWWA Publication, supra, first Finding, p. 6.)



Commission places on utilities to justify large capital projects such as those GSWC has proposed with its pipeline replacement program.

IV. GSWC's Request to Replace Backhoe, Trailer and Dump Truck

GSWC asserts that the backhoe at issue "is undersized to perform its designated tasks," and the dump truck "is undersized to transport the backhoe." (GSWC Opening Brief, p. 35, re Santa Maria CSA.) Unfortunately, it is probably too late to remove the costs of purchasing these items from ratebase, as it appears the decision to purchase them was not reasonable, since according to GSWC they are unsuited for their stated purpose.

GSWC fails to describe how exactly a backhoe is "undersized,"⁵ and does not describe the new backhoe and dump truck in any detail in its testimony, brief, or workpapers. Given GSWC's admitted inability to purchase a suitable backhoe and dump truck previously, more detail as to the capacities of the new equipment would be useful for the Commission to evaluate the reasonableness of this request. Finally, GSWC has not offset the purchase cost of the new equipment with the salvage or sale value of the old equipment.

GSWC has failed to meet its burden of proof that it actually needs the new backhoe, trailer and dump truck, and even if it did show need, GSWC has also failed to adequately describe the equipment to be purchased and has failed show that its proposed purchase of that equipment is reasonable.

V. CONCLUSION

The Commission should reject GSWC's proposal, and adopt DRA's recommendations for well, pipeline, and equipment replacement.

///
///
///

⁵ Does this mean that it can only dig small trenches?



Respectfully submitted,

/s/ PETER V. ALLEN

Peter V. Allen
Staff Counsel

Attorney for the Division of Ratepayer
Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2195
Fax: (415) 703-2262
E-mail: pva@cpuc.ca.gov

August 13, 2010



CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **REPLY BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES** to the official service list in **A.10-01-009** by using the following service:

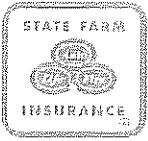
E-Mail Service: sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

U.S. Mail Service: mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **August 13, 2010** at San Francisco, California.

/s/ NELLY SARMIENTO

Nelly Sarmiento



SERVICE LIST - A.10-01-009

pva@cpuc.ca.gov
jkarp@winston.com
grosendo@gswater.com
jadarneylane@gswater.com
jgaron@gswater.com
KSwitzer@gswater.com
ypinedo@gswater.com
colettecotton@yahoo.com
mnarensky@winston.com
hsm@cpuc.ca.gov
vcc@cpuc.ca.gov
djg@cpuc.ca.gov
dug@cpuc.ca.gov
lfr@cpuc.ca.gov



REC'D SEP 13 2011

September 13, 2011

Dear Council Members,

Golden State Water Company is proud to serve the Ojai community. Golden State professionals work diligently to ensure Ojai residents and businesses have reliable, high quality water service. We have been here since 1929, and look forward to many more years of partnership with the community.

We are writing to provide our perspective regarding the attempt by Ojai FLOW to convince Casitas Municipal Water District or another governmental authority to use eminent domain to take over our water system. First, you should understand that our water system is not for sale. Any effort to condemn the Ojai water system will result in a lengthy, costly and unnecessarily divisive legal process.

Second, Ojai FLOW is not an unbiased proponent of condemnation. To the contrary, it is affiliated with a national organization whose mission includes actively promoting hostile takeover actions against privately owned water companies. Ojai FLOW also has provided you with a fatally-flawed "study" in an attempt to garner support from the City Council. We have enclosed a fact sheet that specifically details the reasons why the FLOW "study" cannot legitimately be used as the basis for what would be an expensive and contentious process.

Additionally, we would call your attention to FLOW's most recent effort in the community of Felton, California. In 2002, a group called Felton FLOW claimed that the San Lorenzo Valley Water District could acquire the local water system for \$2 million. After six years and more than a million dollars in legal fees and expenses, the Felton system sold on the eve of trial for \$13.4 million or approximately \$10,100 per customer. The long term financial risk associated with a hostile condemnation action is simply not in the best interest of the residents of Ojai or the customers of Casitas Municipal Water District.

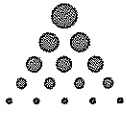
It is also our understanding that the City of Ojai is considering spending tax dollars to hire a consultant to evaluate the Ojai FLOW "study." We request the opportunity to meet with the City before it spends any public funds against a local business that has operated in this community since 1929. We look forward to working with the City Manager to schedule a public meeting as soon as possible and hope that you will refrain from taking any further action in support of condemnation until we have been provided a fair and reasonable opportunity to address the Council.

In the interim, Golden State will continue providing the best possible water service to residents and businesses in Ojai. This includes an open discussion with local officials and customers about our operations and rates, as well the negative consequences that would result from an expensive, time-consuming and divisive eminent domain takeover.

We look forward to hearing from you and hope we might schedule a time to discuss these important issues with you personally.

Sincerely,

Kenneth J. Petersen, P.E.
Coastal District Manager
Golden State Water Company



Golden State Water Company's Ojai water system is not for sale. Neither our customers nor those of Casitas Municipal Water District should take on the uncertainty and understated costs associated with an eminent domain takeover.

An organization called Ojai FLOW is trying to convince the Casitas Municipal Water District to engage in an expensive and risky eminent domain takeover. Ojai FLOW is affiliated with a worldwide organization with an agenda and predetermined bias against private companies.

However, Ojai FLOW's claims are based on a flawed and biased "feasibility" document. It does not reflect the true costs and consequences for Golden State Water Company or Casitas Municipal Water District customers.

*From the FLOW website,
"FLOW (Friends of
Locally Owned Water) is
a world movement in
support of citizen
ownership and control
of our dwindling supply
of fresh water."*

Just Facts: Detailing a Fatally Flawed Feasibility Analysis

The report's author is one of the leaders of Ojai FLOW. While he may be well intentioned, he is not a licensed, accredited or certified appraiser or a municipal bond expert. Taxpayers should not assume the risk associated with an expensive eminent domain takeover based upon the FLOW document. The FLOW analysis and conclusions are unreliable, unreasonable and wholly unsupported.

- **The Report Grossly Underestimates the Fair Market Value of Golden State's Ojai System**
 - Rate Base is not the measure of fair market value in California.
 - The document makes no attempt to follow (or even recognize) generally accepted appraisal standards.
 - History shows that ultimate values in condemnation actions result in valuations from 2 to 5 times more than the condemning authorities initially contend it will cost.

- **Casitas Cannot and Will Not Acquire the Ojai System for Rate Base**
 - Rate Base only includes the original cost of the physical assets less book depreciation. It does not reflect the current value of all system assets and totally ignores the value of Golden State Water Company's water rights.

- California Law says: Fair market value is the highest price for the property that a willing buyer would pay in cash to a willing seller, plus severance damages.
- **There is No Basis to Assume that Casitas Will or Could Charge Ojai Customers the Current Casitas Rates**
 - Current Casitas rates do not include the costs for purchasing and financing the acquisition and operation of the Ojai system.
 - There is no basis to assume that current Casitas customers will not be forced to pay higher water rates after takeover of the Ojai system for operational or capital expenses.
- **There is No Basis to Assume that Casitas Can Operate the Ojai System at a Lower Cost than Golden State Water Company.**
 - Golden State's operational costs are based on actual cost of service as approved by the California Public Utilities Commission.
 - The FLOW Report without basis assumes that Casitas can continue serving its existing customers and double the size of its retail system by buying the Ojai system without increased administrative, overhead and long term liability costs.
- **Flow's Bond Financing Analysis Is Fundamentally Flawed**
 - No market demand at 5 percent interest for municipal bonds secured by a surcharge fee based on variable water demand. Municipal bond market prefers bonds secured by less risky and less variable property tax assessments.
 - For FLOW's bond scheme to have any market appeal it would require (a) a higher effective interest rate and/or (b) expensive private insurance to guarantee the bonds – neither of which is included in the analysis. Note: on a 30-year amortization period, an increase of ½ percent or 1 percent makes a huge difference in the amount of the annual bond debt service.
 - Analysis does not include underwriting and other costs to issue the "surcharge fee secured" municipal bonds.

April 18, 2005

Tony Campos, Chairperson
Members of the Santa Cruz County Board of Supervisors
County of Santa Cruz
701 Ocean Street, Room 500
Santa Cruz, CA 95060

RE: California American Water - - Felton Water Facility

Dear Chairperson Campos and Members of the Santa Cruz County Board of Supervisors:

This office represents California American Water. As we all know, there has been a substantial amount of publicity relating to California American Water's water facility in Felton. At this point, Santa Cruz County and the San Lorenzo Valley Water District have entered into a joint community facilities agreement. This agreement expressly contemplates: (1) Santa Cruz County holding a special election for Felton voters to approve an increase in property taxes for purposes of funding the acquisition of the Felton water facility, and (2) the San Lorenzo Valley Water District ("SLVWD") attempting to exercise its eminent domain authority to acquire and operate the Felton water facility. On April 26, you will be considering whether to adopt a "resolution of intention" to hold a special election in July concerning approval of the new tax.

The purpose of this letter is to set forth California American Water's objections to the current efforts by Santa Cruz County and the SLVWD to fund the potential acquisition and/or attempt to acquire by eminent domain the water facility in Felton.

I. Preliminary Comments

The decisions regarding whether the government should hold a special election to increase property taxes and seek to acquire the Felton water facility by eminent domain are extremely important to California American Water and the Felton community at large. These decisions will undoubtedly have far-reaching consequences for all interested parties.

California American Water is not interested in selling the facility. Furthermore, California American Water does not believe the SLVWD can lawfully exercise its eminent domain authority in this case. Under the United States Constitution (5th and 14th Amendments) and the California Constitution (Article I, §19), private property may be taken by the government only when there has been a determination of "public use," and

when the owner has been paid "just compensation." In California, the owner of private property has a well-established right to challenge the government's attempt to exercise its eminent domain authority by way of a "right to take objection." (See, e.g., *Santa Cruz County Redevelopment Agency v. Izant* (1995) 37 Cal.App.4th 141.) If the owner of private property succeeds on a "right to take objection," the government must reimburse the owner for his/her attorney's fees and litigation expenses. (Code of Civil Procedure section 1268.610.) As explained herein, a court is likely to find that the law does not support SLVWD's attempt to use eminent domain.

Even if the SLVWD mistakenly assumes that it can lawfully exercise its eminent domain authority here, the ultimate costs to Felton customers are highly speculative at best. The County has relied on a rate method and apportionment study in making assumptions regarding the costs to acquire the Felton water facility, and the increased property taxes needed to pay for the acquisition. California American Water believes these suggested costs are grossly underestimated. Yet, even using the County's own estimates, each homeowner served by the Felton water facility is likely to be charged \$700 per year in new property taxes for 30 years to pay off principal and interest on an \$11 million dollar bond that ultimately will cost \$27,000,000. Significantly, this projected \$27,000,000 tab does not even include the water rates that SLVWD will charge to the Felton customers over the same 30-year period.

Clearly, given the important legal and economic impacts of this matter, any decision by the County Board of Supervisors must be based upon an objective and careful review of the facts and arguments. In particular, (1) will a forced takeover by the SLVWD effectuate a "more necessary public use?"; (2) will the SLVWD provide substantially better water quality and service to the Felton customers than California American Water?; and (3) when factoring in the new tax burden with the uncertain rates to be charged by the SLVWD, will the Felton customers actually pay substantially less for water than under California American Water?

Thus far, instead of an open, objective, rational and balanced discussion of these issues, we have seen a one-sided barrage of emotionally charged, highly inflammatory rhetoric. It is, for example, one thing for an individual to express a personal belief that private corporations should not be permitted to own and operate a local water facility. While such sentiment is incongruous with applicable law, it is at least a topic that has been raised (even by members of the Board of Supervisors) in a civil manner.

However, it is an altogether different matter when an individual seeks to persuade others by suggesting that RWE (California American Water's parent company) must have some improper, ulterior motive due to its "foreign" corporation status. Some improper suggestions include: (1) that California American Water may shut off and/or divert the Felton water sources, and/or (2) that California American Water may attempt to "bottle" and sell the water in the retail market. Such concocted allegations are not only factually baseless, but, in this post 9/11 era, are irresponsible. California American Water's ownership and operation of the Felton water facility is in total and complete compliance with the laws of the State of California. Any suggestions of improper motive on California American Water's part are merely an obvious attempt to divert attention from the real issues.

We request that the County and the SLVWD rationally and objectively focus on credible evidence and applicable legal principles in making their decisions. These decisions must be guided by dispassionate reason based upon facts (not speculation) and applicable legal principles. All interested parties - - for and against the new tax and the eminent domain process - - deserve such an analysis. Certainly, if the matter is litigated, the Court will determine whether the decisions of the County and the SLVWD were objectively and truly based on credible evidence. We sincerely hope that the decisions by the County and the SLVWD will not lead to litigation.

In making our arguments, we will not resort to finger pointing, name-calling or other personal attacks. We appreciate the opportunity to provide quality water service in Felton. While we believe that former Supervisor (current Santa Cruz County Judge) Jeff Almquist's efforts to spearhead the eminent domain process were misguided, we look forward to working with this Board of Supervisors to clarify significant factual misunderstandings. Moreover, while we disagree with many of the charges leveled by certain members of FLOW, we have no quarrel with them personally. Most of them are, after all, customers and they have a right to raise legitimate concerns about California American Water's service. In addition, while we do not believe the SLVWD can provide substantially better water quality and service at substantially lower rates than California American Water, we acknowledge that the SLVWD is a competent water district with qualified and experienced personnel.

Ultimately, if the County and/or the SLVWD attempt to acquire the Felton water facility by eminent domain, there must be a determination that the SLVWD's ownership and operation of the facility constitutes a "more necessary public use." Based upon the facts and reasons enumerated thus far, substantial evidence does not exist to support such a finding. Therefore, the prudent and fiscally responsible course of action is to vote against the resolution of intention, and to vote against eminent domain proceedings.

II. Summary of Objections

The resolution of intention is defective. The SLVWD and the County have not properly described the "project" for which the tax will be levied, and have failed to state whether the SLVWD intends to operate the Felton water facility (1) as a "stand alone" facility, or (2) as part of a consolidated/integrated unit with the SLVWD's other facility. Furthermore, if the SLVWD intends to divert water from the Felton facility to make up for water deficiencies within its existing customer base, the SLVWD must comply with the California Environmental Quality Act and the SLVWD voters must be included in the voting process.

The County's estimated acquisition costs are grossly underestimated. Although a public vote on a new property tax is supposed to be an open, public process, the County refuses to produce its appraisals. The County claims that they are "confidential." The Bartle Wells "study" of the Felton water facility is completely unreliable. The County has failed to properly appraise the value of the water facility and the watershed real estate.

The proposed condemnation of the Felton water system is not for a "more necessary public use." California American Water already complies with state law. It is also strictly regulated by the Public Utilities Commission, the California State Water Resources Control Board, the California Department of Health, the Santa Cruz County Department of Health, and the United States Environmental Protection Agency. California American Water has properly maintained the Felton water system and is committed to protecting the Felton watershed. In comparison to SLVWD, California American Water has superior access to private capital to fund capital improvements, provides superior water quality, has less unaccounted water, and fewer customer complaints.

There is no credible evidence that the costly takeover would result in savings to Felton ratepayers, improved service, and/or lower operational costs. A direct comparison of "rates" charged by the SLVWD and California American Water is simply misleading. Felton residents and Santa Cruz County residents generally will ultimately be taxed much more to pay for water and other public services. Simply shifting this burden from one County resident to another is not in the public interest.

III. About California American Water

California American Water provides water and wastewater services to approximately 171,000 homes and businesses throughout California. The Felton system is part of the Coastal Division, which also operates water systems in Monterey and San Mateo Counties. In Felton, California American Water employees collect, treat and deliver water to homes and businesses. Water technicians operate the water treatment plant and maintain the system of pipes, pumps, and storage tanks. Employees also check meters, make repairs, and ensure the safety of Felton's water supply.

California American Water is a California corporation with its own Board of Directors. California American Water is owned entirely by American Water, part of RWE Thames Water of London's water division, which serves more than 18 million people in 29 states, 4 Canadian provinces, and Puerto Rico. RWE Thames Water is the water/wastewater division of RWE, a multi-utility company with interests in gas, electric, water and wastewater businesses. RWE's water division is the third largest water and wastewater services company in the world.

For many years, residents of Felton had their water service provided by Citizens Utilities. Citizens Utilities was a multinational publicly traded company, based in Hartford, Connecticut, that owned gas, electric, telecommunications and water operations.

In 1999, American Water, parent company of California American Water, entered into an agreement to purchase the water and wastewater assets of Citizens Utilities in six states. This transaction was completed in January 2001. During the process of American Water receiving regulatory approval to purchase the Felton system from Citizens Utilities, it agreed to be purchased by RWE Thames Water of London.

RWE has an excellent environmental track record and is committed to protecting the environment. In fact, RWE has appeared on the Dow Jones Sustainability Index each year it has been published. The Dow Jones Sustainability Index includes some 300 businesses worldwide that are considered to be leaders in their fields in terms of adhering to sustainable business policies based on wise use of resources and respect for environmental concerns. In addition, for over 10 years it has produced an annual report called the "Environment and Conservation Review."

In December of 2002, the California Public Utilities Commission completed its approval process of the RWE Thames Water acquisition of American Water. On January 10, 2003, the transaction was completed. Since that time, there have been improvements to the Felton water system in customer service, security preparedness, customer communication and infrastructure investment.

As part of America's largest water provider, Felton customers have access to award-winning water quality research, and economies of scale in items like bill printing and administrative functions. California American Water benefits from having access to dozens of experts and some of the finest laboratories in the world. In addition, the Coastal Division employs specially trained experts for water quality and engineering and has access to experience and expertise not available to most municipal water systems.

California American Water prides itself on being a good corporate citizen and recognizes the importance of being involved in the Felton community. Its employees live and work in the area and the company uses local contractors on major projects. In 2003, California American Water donated water to the San Lorenzo High School Football team and Felton Community Hall's "All out August" festival. In 2004, the company sponsored the San Lorenzo Valley's recreational girl's basketball team and the San Lorenzo Valley High School's booster club. The company has also supported the Belardi Foundation in its efforts to renovate the historic church that houses the Felton Library, as well as Valley Churches United's holiday food bank for needy families. Additionally, California American Water is a longtime member of the Felton Business Association and supports its "Felton Remembers" and the "Race through the Redwoods" annually.

IV. California American Water's Ownership and Operation of the Felton Water Facility is in Compliance with the Laws of the State of California

As previously stated, it has been suggested that the County and/or the SLVWD should takeover the Felton water facility because California American Water's parent company is a "foreign" corporation and California American Water's motives should therefore be questioned. We assume that the vast majority of FLOW members, as well as Santa Cruz County and SLVWD decision makers, understand that such sentiment wholly lacks merit and may not lawfully be used as a basis for condemnation. Nevertheless, in order to avoid any misconceptions about California American Water's legal status, we offer the following information.

A. California American Water is a "Public Utility" Under the Public Utilities Code

The law in California clearly authorizes California American Water to own and operate the Felton water facility. Section 241 of the California Public Utilities Code defines the term "water corporation" to include "every corporation or person owning, controlling, operating, or managing any water system for compensation within this State." A private corporation that falls under Section 241's definition of a "water corporation" is deemed to be a "public utility" subject to the Public Utilities Act and subject to regulation by the California Public Utilities Commission. (See Public Utilities Code §216(a); see also *South Bay Irrigation District v. California American Water Company* (1976) 61 Cal.App.3d 944.)

As a "public utility," a private corporation that meets the definition of a "water corporation" has important rights and obligations under California law. For example, it has been long-held that the Public Utilities Code places the obligation to render high levels of service upon the owners of water systems as well as those controlling, managing and operating them. (*Corte Madera Water Co.* (1919) 17 C.R.C. 213.) A public utility even has the power of eminent domain to acquire "any property necessary for the construction and maintenance of its water system." (Public Utilities Code §§610 and 618.) Over 90 years ago, the California Supreme Court held that this eminent domain authority extends to a private "foreign" corporation lawfully doing business in California as a "public utility." (See *Joaquin & Kings River Canal & Irrigation Co., Inc. v. James J. Stevenson* (1912) 164 Cal. 332.)

B. California American Water is Strictly Regulated by the Public Utilities Commission

As a privately owned public water utility, California American Water is highly regulated. The California Department of Health Services, the Santa Cruz County Department of Health, and the United States Environmental Protection Agency regulate water quality. In addition, the California State Water Resources Control Board controls the company's water rights.

Significantly, the California Public Utilities Commission ("PUC") establishes service standards and reviews proposed utility rate changes for all privately-owned public utility water companies (like California American Water) in the state of California. The PUC monitors the safety of utility operations, inhibits anti-competitive activity, protects utility customers from fraud, and seeks to promote the health of California's economy. The California Supreme Court has held that "[t]he PUC has a mandate to protect the public interest. . . and ensure that customers receive adequate service at just and reasonable rates." (*Salv. v. Railroad Commission*, supra, 15 Cal.2d 612, 617.)

The PUC is responsible for assuring California utility customers have safe, reliable utility service at reasonable rates. In fact, the Public Utilities Code, section 739.8(a) expressly mandates that "access to an adequate supply of healthful water is a basic necessity of human life, and shall be made available to all residents of California at an affordable cost." The PUC works with other state and federal agencies to promote water quality, environmental protection and safety. In its efforts to protect consumers, the PUC prosecutes unlawful utility marketing/billing activities and resolves complaints by customers against utilities. It also implements low-income rates, oversees the merger and restructure of utility corporations, and enforces the California Environmental Quality Act for utility construction.

Tony Campos, Chairperson
Members of the Santa Cruz County Board of Supervisors
County of Santa Cruz
April 18, 2005
Page 7

In regulating privately owned public utilities, the PUC employs economists, engineers, administrative law judges, accountants, lawyers, and safety and transportation specialists. In addition] the Office of Ratepayer Advocates, an independent arm of the PUC, represents consumers in Commission proceedings. The Commission also has a Public Advisor who assists the public in participating in Commission proceedings, as well as a unit that is charged with informally resolving consumer complaints.

Ratemaking at the PUC is an open-book process. California American Water is required to submit a detailed analysis of its costs, such as labor, energy, supplies, taxes, and rate of return. In addition, it provides the PUC with a proposed capital improvement plan. The PUC staff scrutinizes this data, and any input from interested parties, and a recommendation is sent to the PUC Commissioners. The Commission then determines what water rates are fair and reasonable.

In reviewing a water utility's rate increase application, the PUC must review the reasonableness of the utility's proposed investment] its compliance with health department regulations, its implementation of previous PUC decisions affecting water quality, and its compliance with general order Number 103. (Cal. P.U.C. Dec. No. 99-06-054, supra, 1999 Cal. P.U.C. Lexis 312 at pp. 31-32.) Thus, in setting rates at affordable levels, the PUC balances both the quality and cost of water services. (*Hartwell Corp. v. Superior Court* (2002) 27 Cal.4th 256, 273.)

V. Arguments Against the Proposed Property Tax Increase

A. The SLWWD and the County Have Not Properly Described the "Project" for Which the Tax Will be Levied

California Government Code section 53321(c) requires a resolution of intention to do the following:

Describe the public facilities and services proposed to be financed by the district pursuant to this chapter. The description may be general and may include alternatives and options, but it shall be sufficiently informative to allow a taxpayer within the district to understand what the funds of the district may be used to finance. . . .

The "Description of District Improvements" attached to the proposed notice of intention is too vague. It does not specifically state whether the SLWWD intends to operate the Felton water facility (1) as a "stand alone" facility, or (2) as part of a consolidated/integrated unit with the SLWWD's other facility.

According to the 2000 Census, the SLWWD contains an estimated population of 17,900 (2000 Census). In 2002, the District produced 2,119 acre-feet of water and sold 1,814 acre-feet. According to a recent report by the Santa Cruz County Local Agency Formation Commission, the difference of 305 acre-feet (14%) represents water losses in the District's system. ¹

¹ See July 2003 Report, p. 30, at www.santacruzlafco.org/pages/reports/Felton%20Water%20Project.pdf

Tony Campos, Chairperson
Members of the Santa Cruz County Board of Supervisors
County of Santa Cruz
April 18, 2005
Page 8

The SLVWD is divided into a northern and southern system. However, in the last decade, the connections and water consumption have increased at a greater rate in the District's southern system than in the District as a whole. The reasons include a 32% increase in new connections in the southern system, larger homes and yards, and a drier climate.²

The southern system is served solely by wells in the Pasatiempo sub-unit of the Lompico Formation, which the District shares with the Scotts Valley Water District and many private well owners. The southern system has a capacity problem and is unquestionably "an area in need of a long-term sustainable water supply."³ In fact, the District's southern system is overdrafting the aquifer by an estimated 170 acre-feet per year and well levels are dropping. It is estimated that the District pumped 444 acre-feet out of the aquifer in 2002.

Clearly, the San Lorenzo Valley Water District needs to take action to reduce its pumping of the over drafted aquifer and address its southern system's capacity issues. Consequently, the District intends to build a transmission main between its northern and southern systems. This connection main would divert water from the northern system to the southern system and allow for the reduction of pumping in the southern system.⁴

It may be that the SLVWD will seek to address its water deficiency problems in another manner - - i.e., by taking over and diverting water from the Felton facility to provide another water source to existing SLVWD customers. Unfortunately, the County and the SLVWD have not adequately disclosed whether the SLVWD intends to operate the Felton water facility as a "stand alone" facility or as part of a consolidated/integrated unit with its existing facility.⁵ In the absence of a clearly defined project, the proposed tax is legally deficient.

B. If the SLVWD Intends to Divert Water from the Felton Facility to Make Up for Water Deficiencies Within its Existing Customer Base, the SLVWD Must Comply with CEQA

For purposes of forming an assessment district, the County has likely assumed that it need not yet prepare an environmental impact report. (See, e.g., *Not About Water Commiffée v. Board of Supervisors* (2002) 95 Cal.App.4th 982.) However, if the SLVWD does intend to divert water from the Felton facility to serve existing SLVWD customers, the SLVWD and/or the County will have to prepare an environmental impact report ("EIR) in accordance with the California Environmental Quality Act ("CEQA"). The EIR will have to include a thorough analysis of the environmental impacts, potential mitigation measures, and project alternatives arising out of the proposed water diversion. This EIR will certainly have to be prepared prior to

² July 2003 Report, p. 31.

³ July 2003 Report, p. 14.

⁴ July 2003 Report, pp. 32-33.

⁵ The February 28, 2005 memo to the SLVWD Board of Directors from its District Manager suggests that the SLVWD does intend to operate its existing facility with the Felton facility as an integrated unit. According to the Memo, there are "potential beneficial synergies . . . to operational flexibility and redundancy." Moreover, both the existing SLVWD customers, as well as the Felton customers, would receive a rate increase if there is a budget shortfall. Yet, there is no definitive statement clarifying the SLVWD's actual intent.

Tony Campos, Chairperson
Members of the Santa Cruz County Board of Supervisors
County of Santa Cruz
April 18, 2005
Page 9

any formal consideration of eminent domain. (*Burbank-Glendale-Pasadena Airport v. Hensler* (1991) 233 Cal.App.3d 577.) The County and/or the SLVWD may not seek to avoid CEQA compliance by failing to disclose their intent.

C. If the SLVWD Intends to Divert Water from the Felton Facility to Make up for Water Deficiencies Within its Existing Customer Base, the SLVWD Voters Must be Included in the Voting Process

The County and the SLVWD need to disclose their intent now. They cannot avoid compliance with the formation requirements of a community facilities district by failing to disclose the true manner in which the Felton facility will be operated. If, in fact, the SLVWD intends to operate the Felton facility as part of a consolidated/integrated unit with its other facility, the proposed community facilities district is legally deficient.

Under the current proposal, only the Felton water customers would be taxed. However, existing SLVWD customers would receive a special benefit by obtaining the Felton customers' water source. As such, the existing SLVWD customers need to be included in the special assessment. (*Saratoga v. Hinz* (2004) 115 Cal.App. 4th 1202, 1222-1224; *Not About Water v. Bd. of Supervisors* (2002) 95 Cal.App.4th 982, 995-997.)

D. The SLVWD's Proposed Rates for Felton Ratepayers are Based on Unreasonably Optimistic and Flawed Assumptions

One of the reasons given for the proposed takeover of the Felton water facility is that the SLVWD will charge Felton customers lower rates than California American Water. However, a closer examination of the facts reveals that this assumption is misleading and uncertain at best.

1. Direct Comparison of "Rates" Charged by the SLVWD and California American Water is Only a Part of the Picture

Comparisons of rates charged by privately owned PUC-regulated utilities with those of municipally owned utilities are difficult at best. Although a direct comparison of rates shows the SLVWD's rates to be lower than California American Water's, there is more to the story.

First, California American Water is funded entirely by the rates paid by water customers. In contrast, the SLVWD's operations are subsidized by customers in many other ways, such as direct funding from property taxes and grants, as well as tax-free investment income. In total, the District subsidizes about 30% of its cost of service with tax revenue, investments, and its reserve funds. While customers do not see these costs on their monthly water bill, they are paying them nonetheless. When all the hidden costs are included, the real cost to the consumer for each SLVWD connection is close to the cost of California American Water's Felton operation.

Second, California American Water pays for necessary public services for which the SLVWD does not contribute. In fiscal year 2001-2002, California American Water paid \$73,400 in property taxes. In the same year, the SLVWD received \$317,998 in property taxes.⁶ California American Water's share of property tax revenues (used for schools, public safety and public facilities) would be lost if the Felton facility is taken over by the SLVWD. If some or all of these lost revenues must be made up in higher taxes to Felton ratepayers, would a takeover by the SLVWD truly result in a lower financial burden?

Third, the SLVWD charges for certain items that California American Water does not. For example, in 2003, the SLVWD received \$111,000 in connection fees. California American Water does not charge for connection fees.

Accordingly, a strict comparison of "rates" charged by the SLVWD and California American Water does not adequately address the issue. It is not a simple "apples to apples" analysis. In *Union Rock Co. v. Atchison*, 27 Cal. RRC 285 (1925) the Public Utility Commission held that such comparisons were inappropriate and unjust. Each water utility has its own unique characteristics, with different operating costs, and upon which the reasonableness of its rates must be judged.

2. Additional Charges

According to the SLVWD staff report and the joint facilities agreement by and between the SLVWD and the County, the SLVWD would eliminate the "surcharge" previously authorized by the PUC for amortization of the loan borrowed under the Safe Drinking Water Bond Act. Specifically, the average Felton ratepayer currently pays \$11.50 a month for the Safe Drinking Water Act Bond on the new Kirby Street Water Treatment Plant. The District would assume the outstanding balance of the loan, approximately \$3 million dollars, if it took over the water system. However, due to legal restrictions, the District cannot levy a surcharge on Felton customers. Instead, the District is planning to raise rates for all their customers to help cover the principal and interest on this loan. The SLVWD District Manager states (in his February 28, 2005 Memo) that this will be paid "by revenue derived from the separate line item surcharge placed on each customer's water bill."

3. The S L W D Dramatically Lowballed its "Worst Case" Scenario

The SLVWD estimates a potential "worst-case" scenario of a \$45,000 shortfall if it acquires the Felton facility. However, this projected worst-case shortfall does not account for needed capital improvements. California American Water plans to spend approximately \$1.7 million in capital improvements for the Felton facility. Obviously, if the SLVWD has no comparable plan for improving the facility, its own rate projections are unduly low.

Moreover, the projected shortfall ignores the SLVWD's payment obligations under the joint facilities agreement with the County. In particular, if the costs of acquiring the Felton facility exceed the \$11 Million

⁶ July 2003 Report, p. 39.

bond, and if the SLVWD does not want to "abandon" the acquisition, it is the SLVWD (not the County) that will have to pay the difference. It is likely that such a shortfall (which is not included in the SLVWD's "worst-case" scenario) would have to be recouped through higher rates.

4. In the Event the SLVWD seeks to Substantially Increase Rates in the Future, the PUC Could Not Stop It

Historical data available for the District shows that its rates have been rising at 2.5% annually. While District customers pay lower rates *at the moment*, they are subject to an *automatic* rate increase of 1% per year. In addition, because the SLVWD is not regulated by the PUC, there is no guarantee that it will not substantially raise rates in the future. Although rates set by a public entity must be "fair, just and non-discriminatory," and are subject to judicial review, rates of a private company which are regulated and approved by the PUC may generally be fairer than rates set by a public entity. (*See Application of City of Banning* (1997) 73 PUC 2d 356; *County of Inyo v. Public Utilities Commission* (1980) 26 Cal.3d 154.) As stated by the California Supreme Court in *County of Inyo* at pages 159-160:

"Judicial review of rates . . . does not provide protection comparable to PUC proceedings. The PUC maintains an expert, independent staff to investigate rate requests; it renders an independent decision on each record that it examines. A court, in contrast, must limit its review to the rates established by the involved utility and must depend upon the expert testimony presented by the parties. . . Thus while judicial review can protect consumers against plainly unfair rates, that remedy does not offer an opportunity for the detailed analysis and careful structuring of rates possible in a PUC proceeding."

Thus, if the SLVWD acquires the Felton facility, the citizens of Felton will lose the experienced oversight and regulatory control of the PUC. They will also lose the protection of the Office of Ratepayer Advocates. Unlike California American Water, the District would not be required to submit detailed information to a third party regulatory commission regarding water quality, customer service, and costs before requesting a rate increase. Rather, the District could raise rates, without justification, any time it needed more money. In fact, three years ago, the District's Board of Directors implemented a plan that raises rates every year without discussion or justification.

Even the Santa Cruz County Local Agency Formation Commission's report noted that "there are rate risks for the Felton water customers whether they stay with California American Water or transfer to SLVWD."⁷

E. The County's Assumed Acquisition Costs are Grossly Underestimated

While one of the reasons suggested for the SLVWD's proposed takeover of the Felton water facility is that the SLVWD's water rates will be lower, the Felton property owners will (by all accounts) have a higher property tax obligation. The real question for the voters is how much higher?

⁷ July 2003 Report, p. 46.

In scheduling a vote on a proposed property tax increase for purposes of a community facilities district, the County has an obligation to disclose the maximum potential tax to the voters. (Government Code section 53321(d).) The County assumes that (1) the value of the Felton water facility is \$3,380,000, (2) the value of the watershed land is \$1,792,500, (3) there is a \$3,567,875 "contingency," (4) the total bond is \$11,000,000 and (5) the "maximum annual special tax" is \$192.33 (upon issuance of the formation bonds) and \$695.52 (upon issuance of the acquisition bonds) for properties with a 5/8" meter, and \$249.37 (upon issuance of the formation bonds) and \$901.81 (upon issuance of the acquisition bonds) for properties with a 3/4" meter,

If, as we believe, the County's estimated acquisition costs are extremely low, then (under the community facilities agreement) the SLVWD must pay the difference between the estimated acquisition costs and the actual acquisition costs.

If this matter proceeds to eminent domain, and if this matter even gets to the valuation phase,* the ultimate value will not be unilaterally set by the SLVWD. (See *Mt. San Jacinto Community College District v. Superior Court* (2004) 117 Cal.App.4th 98, 103: "In both eminent domain and inverse condemnation proceedings, the issue of just compensation is to be tried before a jury.") Nor will the jury's determination of fair market value be based upon what the SLVWD thinks (in terms of value) it has gained. As recently explained by the Court of Appeal in *Saratoga Fire Protection District v. Hackett* (2004) 97 Cal.App.4th 895, 901-902:

The purpose of our eminent domain statutes is obvious. The Legislature undoubtedly envisioned speedy acquisitions and timely compensation. [Citation omitted.] The compensation to which the owner is entitled is "just compensation." Just compensation is the "full and perfect" monetary equivalent of the fair market value of the land paid at the time the taking occurred. [Citation omitted.] "The policy underlying the just compensation clause is to ensure that the owner of damaged [or taken] property is not forced to contribute more than his proper share to the public undertaking. . . ." [Citation omitted.] The United States Supreme Court has stated, "the just compensation required by the Constitution to be made to the owner is to be measured by the loss caused to him by the appropriation." [Citation omitted.]

Based upon the limited information provided by the County to date, it is not realistic to expect that the proposed \$11,000,000 bond will cover acquisition costs.

1. The Bartle Wells "Study" of the Felton Water Facility is Unreliable

No credible (or scrutinized) determination of "fair market value" has been made. The term "fair market value" is expressly defined in the California Eminent Domain Law. (California Code of Civil Procedure section 1263.320.) It includes "the highest price...that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing, and able to buy but under no particular necessity for so doing, each dealing with the other with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available."

* As explained later, California American Water Company will assert a "right to take" objection and argue that the SLVWD cannot condemn the Felton water facility under applicable law.

Under applicable appraisal standards, an appraiser is ethically required to state in his/her appraisal whether he/she is using this definition of "fair market value".

To date, the County discloses only that it had the value of the Felton water facility estimated at \$3,380,000 and the value of the real estate estimated at \$1,792,500. However, the County has not produced appraisals. The County has thus far only made a "study available for public review. Indeed, under the California Public Records Act, California American Water Company has specifically requested that the County provide copies of all appraisals in its possession relating to the Felton water facility and watershed property. The public is being asked to vote on a tax increase. All interested parties have a right to review all pertinent information relating to the assumed amount of taxes that will be levied, and the assumed amount of money that will have to be paid through rate increases or other means. Incredibly, however, the County's response to the Public Records Act request is that its appraisals are "confidential" and not subject to public review. Therefore, at this point, we only have a "study which does not even refer to the water facility's "fair market value."

Curiously, the same company (Bartle Wells Associates) that valued California American Water's water facility in Montara when the Montara Sanitary District sought to acquire that facility prepared this "Study." The Bartle Wells conclusion of "fair market value" in the Montara matter was \$4,419,000. When the parties settled that case, the ultimate stipulated value of the Montara water facility was \$11,000,000—two and one half times more than the Bartle Wells valuation.

There are obvious and important similarities between the Montara system and the Felton facility. The Montara/Moss Beach water system had 1,650 customers, as compared to approximately 1,350 connections for Felton. Like Felton, the Montara/Moss Beach water system serves a relatively small coastal community. Like Felton, the Montara/Moss Landing water system was previously owned and operated by Citizens Utilities, and then California American Water Company. In addition, of all of the "comparable sales" used by Bartle Wells, the Montara transaction is by far the closest in time to the proposed Felton acquisition. However, there is at least one significant difference between the two facilities. Unlike the Montara/Moss Landing water system (which had extensive water supply and water quality problems), the Felton facility has no water supply or water quality problems.

The Bartle Wells "study weakly suggests that "[t]he amount which the Montara Water and Sanitation District paid California America Water is inconsistent with all previous water sales in California." We believe this statement is unfair. With regard to the standard elements of comparability (time of sale, location of sale, use of the property), there is simply no better "market data which sheds light on the value of the Felton facility than the Montara transaction. The fact that Bartle Wells has used the Montara transaction as a "comparable sale" clearly shows its statement to be self-serving.

The Montara/Moss Beach experience is a cautionary tale. Customers there were promised cheaper water rates. Instead, they now have the same water rates *plus* higher taxes. There, even without an eminent domain trial, the Montara Sanitary District spent millions in legal fees and the County was required to pick up the tab for a bond measure election. In addition to these real costs, customers now owe millions to pay for the cost of the water system and the interest on the bond. While the purchase price of the water system

was \$11.097 million, a larger bond was floated to pay for legal and transaction costs and to make some system upgrades. As a result, the increased tax burden on the "average" home is \$1,128 per year for 25 years, or \$28,215. When voters in Montara and Moss Beach went to the polls, they were never told that the bond measure would cost the average home purchaser in 2002 almost \$30,000. Indeed, many homeowners assumed that Proposition 13 protected them from increases in property taxes. Only now, when it is too late, are residents learning the true facts.

While located much farther away, the appraisal of the Illinois-American Water Company's water facility in Peoria serves as another recent example of a public agency's attempt to "lowball" the value of a water facility. There, the City's appraisal was under \$96 million. Ultimately, a three-member appraisal panel set the value of the water facility at \$220 million - - more than two times the City's appraised value. The City of Peoria is now trying to determine whether it should abandon the attempted acquisition.

Clearly, the County's proposed "maximum tax" is based on a huge assumption: that the jury will determine that the value of the Felton water facility will be at or under the \$11,000,000 bond. Based on the limited information provided to the public thus far, we believe this is an egregious error.

2. The County's Assumed Value of the Watershed Property Ignores the SLVWD's Sale of its Own Watershed Property

While refusing to make public a copy of its appraisal, the County advises the voters that the value of California American Water Company's watershed property is \$1,792,500 (or \$7,500 per acre for 239 acres).

It is our understanding that the SLVWD owned and recently sold similar watershed property to the Lands for Public Trust. Based upon our information, a logging company had actually offered the SLVWD the sum of \$19 million to purchase its watershed property. Ultimately, the SLVWD agreed to sell the property to the Lands for Public Trust for the sum of \$10.9 million.

We have no qualms with the SLVWD's decision to take less money in order to ensure that the Lands for Public Trust conserve and protect the watershed property. However, the eminent domain law requires the SLVWD to value California American's watershed property based upon its "highest price" and its "highest and best use." If a logging company was willing to offer the SLVWD \$19 million for its watershed property, and if the Lands for Public Trust was willing to pay \$10.9 million, why is the County's appraisal (which it will not disclose to the public) so low?

We do not believe a jury will accept the County's approach. As such, the County's proposed acquisition costs for the watershed property will likely far exceed its estimates. If the SLVWD decides to pay the difference, the voters are entitled to know whether and how this will occur.

VI. Arguments Against Eminent Domain

As previously stated, California American Water objects to the SLVWD's attempt to acquire the Felton water facility by eminent domain. The preceding section addressed the question of "costs" of the Felton facility. In fact, we believe a court proceeding will not even get to the question of the value of the facility. We believe the SLVWD does not have the "right to take" the facility by eminent domain.

A. Failure to Comply with the California Environmental Quality Act

As previously stated, if the SLVWD intends to divert water from the Felton facility to serve its existing customers, it will need to prepare a legally adequate EIR prior to any eminent domain proceedings. (*Burbank-Glendale-Pasadena Airport Authority v. Hensler*, supra, 233 Cal.App.3d 577.) Because this has not occurred, the SLVWD cannot commence eminent domain proceedings.

B. The SLVWD Must Demonstrate a "More Necessary Public Use"

In order to exercise its eminent domain authority, a public entity must adopt a "resolution of necessity which includes the following findings:

- (a) The public interest and necessity require the project.
- (b) The project is planned or located in the manner that will be most compatible with the greatest public good and the least private injury.
- (c) The property sought to be acquired is necessary for the project.

(California Code of Civil Procedure section 1240.030 – 1240.040.)

Prior to 1992, if a property owner sought to make a "right to take" objection to a public entity's eminent domain authority, the Eminent Domain Law provided that the public entity's adoption of a resolution of necessity "conclusively establishes" these findings. However, in 1992, the California Legislature adopted a significant revision to this law. Specifically, the law now provides that when a "local public entity, other than a sanitary district exercising the powers of a county water district," seeks to condemn property that is "electric, gas, or water public utility property," there must be a "more necessary public use" which justifies the acquisition. In addition, there is no conclusive presumption that the findings in the resolution of necessity are valid. Instead, there is only a "rebuttable presumption that the matters referred to in Section 1240.030 are true." (Code of Civil Procedure section 1245.250(b).)

A review of the Legislative History of section 1245.250 shows that this new law was intended to protect companies such as California American Water Company from an unjustified takeover by a local public entity. A local public entity can still lawfully exercise its eminent domain authority to acquire a dilapidated, neglected water facility. It cannot do so, however, where (as here) a qualified water corporation is

complying with the law, providing similar (if not better) water quality and service than the local public entity, and charging reasonable rates.

As previously stated, California American Water does not seek to disparage or otherwise level personal attacks against the SLVWD. California American Water believes the SLVWD has competent, experienced personnel. However, for purposes of determining whether the proposed acquisition of the Felton water system would result in a "more necessary public use," we do not believe the SLVWD can operate the Felton facility substantially better at a substantial cost savings. The following irrefutably demonstrates this fact.

C. The Proposed Condemnation of the Felton Water System is Not For a "More Necessary Public Use"

1. LAFCO Has Already Found that the SLVWD's Service Would be Similar to California American Water Company's Service

The Santa Cruz County Local Agency Formation Commission ("the Commission") recently prepared a report which found that California American Water and the SLVWD provide "similar levels of water service to their customers."⁹ In fact, the Commission stated that the SLVWD "would operate the Felton system substantially as California American Water operates it today."¹⁰

2. California American Water Has Superior Access to Private Capital to Fund Capital Improvements

The trend in the water industry is away from public ownership because local governments have difficulty finding the money to properly maintain the water systems. Today, a large number of government-owned water systems fail to meet existing EPA standards. The EPA estimates that it would take \$12 billion in order for these government-owned systems to meet current quality standards.

One of the major competitive advantages of California American Water over municipal water systems is the access to private capital. California American Water can borrow money for capital improvements at low rates and pass the savings along to customers. This is particularly important in communities like Felton, where the terrain and distance between homes makes it difficult to install and maintain underground pipelines.

If the SLVWD takes over the Felton water facility, Felton will lose access to private capital markets and the expertise of a range of trained experts. There is no suggestion that the SLVWD has better financial capability to provide the necessary infrastructure and repairs. Nor has the SLVWD shown that it is more willing than California American Water to invest the money required maintaining and improving the Felton water system. In contrast, California American Water's management of the system, combined with PUC

⁹ July 2003 Report, p. 40.

¹⁰ July 2003 Report, p. 47

oversight, will ensure that all necessary investment will be made to continue to comply with all local, state and federal water quality standards.

3. California American Water's Felton Water System Provides Superior Water Quality

California American Water owns and manages a pristine watershed in the hills above Felton that feeds several major springs and Fall Creek. The water rights in Felton are owned by the State of California and managed by the Water Resources Control Board, which licenses California American Water to collect, treat and distribute the water.

California American Water's Felton water system relies on a creek diversion, three springs, and a standby well. Water from the creek and springs is sent to the Kirby Street Water Treatment Plant where it is filtered, treated and pumped to Felton customers. California American Water's water system serves approximately 1,352 connections with a service area of approximately 2 square miles (1270 acres). California American Water's Felton water system consists of 20.5 miles of water main pipeline, seven storage facilities, and six booster stations.

A decade ago Felton's water supply was simply run through sand filters to remove impurities. In 1996, the Kirby Street Water Treatment Plant was built to meet the new standards of the Safe Water Drinking Act and other public drinking water regulations. The treatment plant was financed by loans totaling \$4.4 million from the Safe Drinking Water Act Bond and is being paid off by surcharges on customers' bi-monthly bills. The treatment plant can handle up to one million gallons per day in an environmentally sound manner. The process not only treats the water but prevents residuals from re-entering the watershed. Significantly, the Felton system has no capacity issues now or in the foreseeable future. Even on the busiest days, the treatment plant is required to run at only 70 per cent of its capacity.

Water quality is California American Water's first priority, and the primary focus of its operations. California American Water cooperates extensively with the Environmental Protection Agency and the California Department of Health Services in testing both raw (untreated) and treated water. The water provided by California American Water to Felton consistently meets or exceeds their compliance standards. In addition to routine daily testing, California American Water conducts rigorous annual testing at the water sources, and at customers' homes, and sends annual reports to Felton customers. As a result, Felton residents enjoy superior water quality.

4. California American Water Has Less Unaccounted Water

Unaccounted water is the difference between the water "produced" – taken out of the ground or river, processed, and ready for delivery to customers – and the amount of water delivered – billed to customers or legitimately used for other purposes. Essentially this water is "lost", through leakage, evaporation, theft, or inaccurate measurement. A water system that is not maintained properly is likely to develop a larger percentage of unaccounted water than one in which the infrastructure is continuously maintained and upgraded. In a drought-prone state where water is a precious commodity, losing drinkable water is a

serious issue. Efficient water delivery is important to assure that adequate water remains for fish and wildlife.

California American Water has worked hard to reduce the amount of unaccounted water in the Felton system. As a result, the company has successfully reduced unaccounted water by over 20%, for the third year in a row. The Felton system now accounts for about 93% of the water that enters the system. In other words, only about 7% of the water that enters the system is unaccounted for. This is comparable to nearby public systems in Soquel Creek and the City of Santa Cruz.

In contrast, the San Lorenzo Valley Water District increased its percentage of unaccounted water from 10.5% to 14.3% between 1998 and 2002. This increase in lost water could indicate that the District has not been investing adequately in system maintenance. As a result, future expenses for deferred maintenance could result in higher water rates, extensive draw down on District reserve funds, and/or the need to raise capital through taxes. In contrast, California American Water has properly maintained and improved the Felton water system as it goes along in an effort to avoid expensive infrastructure problems in the future.

5. California American Water is Committed to Protecting the Felton Watershed

California American Water is committed to the protection of the Felton community's water ecosystem. In addition to daily inspections of Felton's watershed, company employees check water levels in Fall Creek (a major source of water for Felton) 365 days a year and monitor the water levels of the San Lorenzo River through the USGS Station at Big Trees. In the event of low water levels in either waterway, the company can reduce or eliminate the amount of water taken for Felton to ensure that these environments are protected. In addition, California American Water promotes water conservation by distributing free leak detector kits, free low flow showerheads, and free garden hose nozzles.

Advocates for the government takeover suggest that California American Water is going to overdraw water from Felton's fragile watershed. However, this allegation is similarly irrational and baseless. It is important to understand that the company's water rights are granted under licenses which limit the amount of water that can be diverted from creeks and springs (not to exceed 514 acre feet annually). The company simply cannot pump more water than its licenses allow. Furthermore, California American Water has absolutely no motivation to take more water than necessary because, as stated above, the Felton system operates at approximately 70% of its capacity and the company will not export Felton water.

6. California American Water Has Properly Maintained the Felton Water System

California American Water has properly maintained and upgraded its Felton water system including: 1,000 feet of new water main on Hillcrest Ave; 500 feet of new main on Ada Ave; 110 feet of new water main on Washington Way; a new effluent turbidimeter; and the new Bennett Springs Chlorination Substation. The company is replacing 1,950 feet of 2-inch water main, along Highway 9, with modern 10-inch pipe. The increased water capacity and additional fire hydrants have improved fire protection and will enable businesses to install sprinklers to reduce their fire insurance costs. In addition, new booster pumps were

recently installed to increase water pressure. Thus, in addition to superior water quality, Felton residents have also benefited from improved reliability, water pressure, and additional fire hydrants.

California American Water plans to continue making improvements to the water system including: additional fire hydrants, and replacing old water meters with remote meter reading to increase accuracy and reduce customer costs.

7. California American Water Has Fewer Customer Complaints

There is ample evidence that, on average, California American Water actually receives fewer customer complaints than the District. In fact, the District reported an average of 50 system problems (main breaks, leaks, water outages) per 1000 connections between 2001 and 2003, versus an average of 21 system problems for California American Water's Felton system during the same period. In addition, the District reported 15 times more customer complaints (taste, odor, color, turbidity, high or low pressure) than the Felton system reported.

8. California American Water Has Improved Its Customer Service in Felton

California American Water admits that, in the past, there were customer service problems in Felton. These arise from problems with telephone access and concerns that California American Water was not as responsive as it could be. In response, California American Water has made significant improvements to its customer service in Felton.

In order to provide timely customer service, one full time employee has been added to the Felton office which now has, on a full-time basis, one supervisor, three operators, and an office administrative assistant. In addition, California American Water's Monterey District office provides the Felton office with engineering support and assistance with meter reading, billing, and developing a capital program.

California American Water has improved its customer service in Felton. Customers have been encouraged to call or visit the Felton office anytime during regular business hours. At the Felton office, customers can pay their bills, request service and get their questions answered. The Felton office manager handles local customer service and dispatches technicians. Alternatively, customers can contact California American Water customer service representatives 24 hours a day, everyday, regarding emergencies or billing and account questions. To provide better service, customer service representatives now have greater authority to resolve customer concerns on the first call. These and other call center improvements have enabled customers to receive faster service that is more effective.

9. California American Water's Requests For Rate Increases Have Reflected Increased Costs To Maintain and Operate the Felton System

Water rates are rising across the United States to pay for increased labor and energy costs, new federal and state regulations and infrastructure improvements. According to the Consumer Price Index, rates for water, sewer and trash increased by 26% between 1998 and 2004.

Water is a capital-intensive industry requiring infrastructure replacement programs and continuing investment to satisfy federal and state safe drinking water and clean water standards. The Public Utilities Commission has acknowledged that the cost of treating and supplying water has increased dramatically stating: "In terms of capital investment per revenue dollar, the provision of water service is the most capital-intensive public utility service."¹¹

When California American Water purchased the Felton water system from Citizens Utilities Company, it acquired a worn infrastructure that has required substantial capital investment. Implementation of capital projects ensures that Felton customers will continue to receive adequate and reliable water service.

California American Water estimates that capital investments of \$1.6 million will be required between 2004 and 2006 to improve the quality and reliability of the Felton water system, meet government standards for quality, and prevent system deterioration that could lead to higher repair costs in the future. Future improvements include replacement of small water mains and the Bull Creek raw water main, as well as improved monitoring and control systems to improve efficiency.

In September 2002, California American Water filed a general rate case with the PUC that included a proposed increase for the Felton district. The requested rate increases reflected California American Water's increased expenses and costs of capital expenditures ("higher operating plant investment") since the last general rate request filed in November 1997. During this period, the company had experienced significant increases in property taxes, pumping power costs, chemical costs, and security. The rates requested reflected and passed through to customers only the increased costs to the company.

The PUC held public hearings and the utility experts on the PUC's staff conducted a thorough review of California American Water's expenses and operations before the commission issued a ruling. In May 2004, the PUC approved a rate increase for the Felton District of 44%, to take place over a 3-year period. At the same time, the PUC suspended implementation of the rate increase and requested proposals from California American Water on how it could be reduced. The PUC established a balancing account to track the difference in revenue between current rates and the approved but not implemented increases until the company's new proposal is considered. In an effort to provide relief to Felton ratepayers, California American Water has proposed that the Felton water system be consolidated with its Monterey District for ratemaking purposes only.

10. The Felton-Monterey Rate-Consolidation Proposal Would Provide Relief To Felton Ratepayers

Many utilities in California, like cable, telephone, gas and power, operate under a single tariff pricing system for all customers. In California, however, water utilities have always had individual characteristics forged by their beginnings and by their wide and varied water supplies. These have caused dramatic differences in cost.

¹¹ (D.00-06-075, 2000 Cal. PUC LEXIS 1114, *40.)

Consolidation would ease the impact in single districts, like Felton, of high-cost projects like replacement and repair of facilities. This distributes the cost of service over a broader customer base to provide rate stability and efficiencies in billing and regulation. A combined rate schedule lowers administrative costs and regulatory costs, enhances capital deployment, improves rate and revenue stability, and ensures affordability for all customers. In the past, the County of Santa Cruz has supported the idea of consolidation of water districts and a combined rate schedule as a way to provide stability, mitigate the impact of high-cost projects in individual districts, and avoid excessive rates. The County has previously supported the consolidation of California American Water's Felton, Larkfield and Sacramento Districts.

In August, 2004, California American Water submitted a rate consolidation proposal to the PUC. This plan would combine the Felton and Monterey districts for rate-making purposes and would allow for the sharing of all non-production costs. Under regional rates, non-production costs would be spread over 43,000 customers rather than just 1,300 Felton customers. Under the proposal, the rates charged in each district are made the same, with some exceptions. Costs for water production and treatment, the costs related to the water treatment plant in Felton, the proposed Coastal Water Project in Monterey (or any other long-term water source replacement project), and repairs or removal of San Clemente Dam, would be charged only to the district receiving the benefits. District consolidation will not change daily operations and will not affect water quality. All services that customers currently receive would remain the same. Furthermore, consolidation would not include sharing of water with any other district.

The consolidation proposal would reduce the projected rate increase in Felton from 44% to approximately 17% (depending on usage) above 1998 levels. This is less than the inflation rate during the same period.

In February, 2005, California American Water filed a general rate case for Felton, as required by the 3-year schedule set by the PUC. The 2005 general rate case requested an increase of 18.6% (consolidated) or 84.4% (unconsolidated) for a typical residential customer, for the 9-year period from 1998 to 2006. There are five general factors requiring the request to increase rates: 1) increased costs of capital resulting from increased debt and equity costs; 2) large amounts of capital investment; 3) pension and benefit costs; 4) ad valorem taxes; and 5) increased labor costs. The consolidated rates proposed for 2006 are significantly lower than the unconsolidated rates and consolidated rates continue to be lower than unconsolidated rates through 2008, the last year covered in the general rate case. There is no reason to expect that this trend would not continue. Thus, through consolidation California American Water is working to provide rate relief to Felton customers

Clearly, keeping the Felton system under California American Water's ownership and moving forward with the consolidation of rates with Monterey is the most cost effective solution for customers concerned with long term costs. The PUC is expected to make a decision about the consolidation application in the coming months.

11. There is No Evidence that the Costly Takeover Would Result in Savings to Felton Ratepayers

As previously shown, the SLVWD's assumptions regarding its proposed rates are flawed and unreliable.

12. There is No Evidence that the Costly Takeover Would Result in Improved Service or Lower Operational Costs

There are very few, if any, efficiencies to be gained by transferring ownership. The Commission acknowledged that: "If the Felton and SLV systems were operated by a single utility, many expenses such as the costs to run two water treatment plants would continue."¹² However, the Commission found that it was "possible that future operating costs of the Felton system could be reduced if the San Lorenzo Valley Water District operated the Felton system." With regard to this critical question, the Commission merely promised to "evaluate these opportunities in greater detail as part of reviewing any future application to annex Felton to SLVWD." This is unacceptable: the decision of whether or not to proceed with condemnation should be based on proven facts and not mere possibilities.

The Commission did speculate that savings might be achieved because of "the District integrating the Felton field staff and absorbing the administrative functions of the Felton system..."¹³ In other words, savings were possible by downsizing the personnel that serve the Felton community. However, with the exception of this cost cutting idea, there has been absolutely no evidence that the San Lorenzo Valley Water District could manage the Felton water system better or cheaper

13. The Estimated Acquisition Costs for the Felton Facility are Unrealistically Low

As previously explained, the County's estimates are unreliable. The SLVWD will have to pay for the difference between the County's estimates and actual acquisition costs if the actual costs are higher. The SLVWD has not explained where these additional funds will come from.

VII. California American Water Stands Ready To Address the Concerns of Felton Residents

A takeover of California American Water's Felton system would be a costly mistake. The ongoing political battle over the Felton system has already proven to be expensive and divisive. The financial costs and acrimony are likely to get even worse if a takeover is pursued. Litigation should always be a last resort. Before proceeding further, California American Water urges the Board to conduct a full investigation regarding the alleged "necessity" for this takeover and to make sure that all possibilities for cooperation have been exhausted.

¹² July 2003 Report, p. 42.

¹³ July 2003 Report, p. 48

Tony Campos, Chairperson
Members of the Santa Cruz County Board of Supervisors
County of Santa Cruz
April 18, 2005
Page 23

124

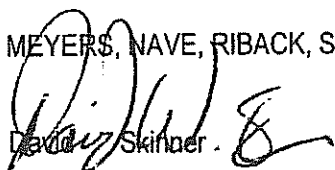
California American Water is willing to explore any and all reasonable alternatives to such costly litigation. If there are concerns about water service or rates, California American Water wants to review each and every one of them with the appropriate individuals, groups or entities. The company simply wants an opportunity -- in a calm and respectful manner -- to respond to such concerns. Indeed, where concerns about service or rates are legitimate, the company is prepared to discuss steps it can take to address those concerns. Where concerns are disputed (e.g., if California American Water believes they are based on inaccurate information), the company would like to show why it believes there is a misunderstanding.

This decision involves considerable risk for taxpayers -- especially because of the complexities and uncertainties in the eminent domain law, as well as the water utility industry. A full public debate is required before any decision should be made.

To date, we have not seen the above issues adequately addressed in the public discourse concerning the proposed take-over of California American Water's Felton water system. We urge you to take the time to consider these issues before embarking on the costly and uncertain path of eminent domain litigation. We are confident that, after a sober inquiry into the above issues, you will conclude that condemnation is not in the public interest.

Very truly yours,

MEYERS, NAVE, RIBACK, SILVER & WILSON


David W. Skinner
DWS:nzg

cc: Dana McRae, Santa Cruz County Counsel
Miriam Stompler, Santa Cruz County Assistant County Counsel
San Lorenzo Valley Water District
Marc G. Hynes, San Lorenzo Valley Water District Counsel
Friends of Local Water (FLOW)

775-0031742648

LAW OFFICES OF

HERMAN H. FITZGERALD

A PROFESSIONAL CORPORATION

HERMAN H. FITZGERALD
CHRISTINE C. FITZGERALD

346 LORTON AVENUE, SUITE 302
BURLINGAME, CALIFORNIA 94010
TELEPHONE (650) 348-5195
FACSIMILE (650) 348-3519

April 22, 2005

Santa Cruz County Board of Supervisors
County of Santa Cruz
701 Ocean Street, Room 500
Santa Cruz, CA 95060

Re: California American Water Company,
Felton District Water System
April 26, 2005 Resolution Hearing

To The Honorable Santa Cruz County Board of Supervisors:

This office represents the Friends of Locally Controlled Water ("FLOW") in the matter concerning the above-entitled water system and submits this letter in response to the April 18, 2005 letter submitted by attorney David W. Skinner of Meyers, Nave, Riback, Silver & Wilson on behalf of the California American Water Company.

Parenthetically, this office represented the Montara Sanitary District as Special Condemnation Counsel in its successful eminent domain acquisition of that portion of the California American water system known as the Montara Water System. The acquisition was completed after the adoption of a Resolution of Necessity, the filing of an eminent domain action in the Superior Court in and for the County of San Mateo and the ultimate settlement of the matter by a Stipulated Judgment before the Honorable Margaret Kemp, Judge of the Superior Court.

At the outset, it should be noted that this office is of the opinion that either Santa Cruz County or the San Lorenzo Valley Water District (hereinafter "SLVWD") have the legal authority by eminent domain of the Felton District Water System of Cal-American. It is our opinion, and we have so advised FLOW, that SLVWD has the legal authority to exercise its power of eminent domain to acquire the water system.

It is noted that the Meyers, Nave letter refers to the settlement in the Montara matter as disproportionately higher than the Bartle Wells appraisal. There are a number of reasons for the difference in the Bartle Wells appraisal than the ultimate Stipulated Judgment amount of \$11,000,000. In the Bartle Wells appraisal there was no inclusion of real estate nor certain items of equipment and improvements which were ultimately included in as part of the negotiated settlement. Additionally, depreciation was calculated in a different fashion which further accounted for the difference in the two figures.

The above represents FLOW's response to the eminent domain issues raised by the California American letter of April 18, 2005.

Respectfully submitted,


HERMAN H. FITZGERALD

HHF:seh

47



**TOWN OF APPLE VALLEY
BLUE RIBBON WATER COMMITTEE AGENDA**

August 18, 2011

6:00 p.m.

The Apple Valley Blue Ribbon Water Committee will hold a public meeting in the Development Services Building Conference Center, South Room, 14975 Dale Evans Parkway, Apple Valley, California 92307 on Thursday, August 18, 2011 at 6:00 p.m.

PUBLIC PARTICIPATION IS INVITED. Any member of the public may speak on any matter within the subject matter jurisdiction of the Blue Ribbon Water Committee. If you wish to be heard on any item on the Committee's agenda, including matters not on the agenda but within the subject matter jurisdiction of the Committee, please so indicate by filling out a REQUEST TO SPEAK form and turn it in to the Town staff at the beginning of the meeting or before the item or matter is heard. No action or discussion shall be undertaken on any item not appearing on the posted agenda, except that members of the Committee or Town staff may briefly respond to statements made or questions posed by persons exercising their public testimony rights under Government Code section 54954.3. Public Comments are limited to three (3) minutes per speaker.

The Town of Apple Valley recognizes its obligation to provide equal access to those individuals with disabilities. Please contact the Town Clerk's Office at (760) 240-7000, ext. 7800 two working days prior to the scheduled meeting for any requests for reasonable accommodations.

Materials related to an item on this agenda submitted to the Committee after distribution of the agenda packet are available for public inspection in the Town Clerk's Office at 14955 Dale Evans Parkway, Apple Valley, CA during normal business hours.

1. **CALL TO ORDER – 6:00 p.m.**
2. **ROLL CALL**
3. **PLEDGE OF ALLEGIANCE**
4. **PUBLIC COMMENTS – 3 MINUTES**
5. **BUSINESS ITEMS**
 - a. Approval of Minutes from May 26, 2011 Meeting (See Attachment 5a)

Potential Action: Consider and approve the May 26, 2011 Meeting Minutes.

- b. Comprehensive Review and Discussion of: "Update to Feasibility Analysis of Acquisition of the Apple Valley Ranchos Water System," California Public Utilities Commission Proceedings Nos. A.11-01-001 and A.11-01-019, and Options for Potential Future Purchase of the Apply Valley Ranchos Water Company (See Attachment 5b)

Potential Actions: The Chairman may create additional Ad Hoc Committees and appoint Committee members to those Ad Hoc Committees

The Committee may formulate recommendations to be forwarded to the Town Council

6. **AD HOC SUBCOMMITTEE REPORTS**

No Action Required:The Committee may receive reports from previously appointed Ad Hoc Committees

7. **SCHEDULING OF FUTURE MEETINGS**

Potential Action: The Chairman may specify the time, location and date of a future Blue Ribbon Water Committee meeting.

8. **ADJOURNMENT**

AFFIDAVIT OF POSTING

I, LA VONDA M-PEARSON, Town Clerk, Town of Apple Valley, do hereby affirm that a copy of the foregoing agenda was posted at DSB Conference Center 72 hours in advance of this meeting.

La Vonda M-Pearson, Town Clerk

**TOWN OF
APPLE VALLEY, CALIFORNIA**

AGENDA MATTER

Subject Item:

REFERRAL OF THE PRELIMINARY “UPDATE OF FEASIBILITY ANALYSIS OF ACQUISITION OF THE APPLE VALLEY RANCHOS WATER SYSTEM” TO THE BLUE RIBBON WATER COMMITTEE FOR REVIEW AND RECOMMENDATIONS

Summary Statement:

The Town of Apple Valley is currently reviewing the feasibility of acquiring a privately held water utility located within the Town. Apple Valley Ranchos Water Company (“AVR”), owned by the Park Water Company, serves approximately 19,500 water customers and projects annual revenues of \$19.5 million at current rates.

The Town is particularly interested in the financial feasibility of acquisition if operation and maintenance of the utility could be less costly over time under public ownership and if it would be financially prudent for the Town to acquire AVR.

The Town solicited **Bartle Wells Associates** to prepare a preliminary updated feasibility analysis (“Feasibility Analysis”) on the acquisition of the AVR by the Town. The Feasibility Analysis is intended to provide the Town with a rough approximation of the potential costs of the acquisition of the AVR. **The Feasibility Analysis estimates that the total acquisition costs could range from \$52.2 million to \$125.7 million, depending on the methods used to value AVR and the type of financing transaction that would be necessary in order for the Town to acquire AVR.**

Recommended Action:

Receive and file the preliminary Feasibility Analysis prepared by Bartle Wells Associates and refer the preliminary Feasibility Analysis to the Blue Ribbon Water Committee for Review and Recommendations regarding both the financial feasibility of acquiring Apple Valley Ranchos Water Company through public financing and the advantages and disadvantages of public ownership should public debt be used to finance such an acquisition. The Blue Ribbon Water Committee is requested to provide its recommendations in writing to the Town Council within sixty (60) days.

(Continued)

Proposed by: John E. Brown, Town Attorney **Item Number** _____

Approval _____ **Budgeted Item** **Yes** **No** **N/A**

Summary Statement
Page 2

The Feasibility Analysis also provides an overview of financing alternatives should the Town decide to proceed with the acquisition of AVR. General obligation bonds, Mellow-Roos bonds, assessment bonds, and revenue-supported borrowing were all examined as possible financing methods in the Feasibility Analysis.

The Feasibility Analysis also examined operations of the water system under public ownership. This examination included revenue sources, operating costs, and risks of public ownership. The Feasibility Analysis generally concludes that operating costs could be less under public ownership than private ownership, when all factors are considered.

Finally, the Feasibility Analysis examined the overall financial feasibility of the acquisition. Bartle Wells Associates concluded that the acquisition of the water utility is financially feasible for the Town under both a high and low purchase price estimate, given the financing alternatives and potential costs savings inherent in a municipally run utility.

Attachments:

1. Preliminary Feasibility Analysis prepared by Bartle Wells Associates (available for review in the Town Clerk's Office).

MINUTES

BLUE RIBBON WATER COMMITTEE

June 13, 2011

The meeting of the Apple Valley Blue Water Committee was called to order at 6:05 p.m. by Chairman Coleman at 14975 Dale Evans Parkway, Apple Valley, CA.

The following members were present:

Chairman Carl Coleman; Committee Members Ronald Barbieri; John Bernier; Jim Chandler; David Christman; Lawrence McCarthy; Bernadette McNulty; Wilson So; Robert Lee Sturges; Joseph Tartaglino; Rob Turner; Jack Collingsworth. Absent: Vice-Chairman Rick Piercy; Committee Members Bill McDaniel; Pat Orr

PUBLIC COMMENTS

Reggie Lamson, Apple Valley Ranchos, distributed a handout to the Blue Ribbon Water Committee of a rate comparison and graph of the water bills for various water providers. Mr. Lamson commented on the average monthly water bill for homes with traditional landscaping and those with water smart landscaping.

BUSINESS ITEMS

a. **Presentation – Brief presentation by Bartle Wells to update the Committee on the Progress of the Feasibility Study for the Water System Acquisition.**

Chairman Coleman provided the Committee with packets of the presentation by Bartle Wells. He noted that the packets include the transcript of the testimonies taken at the Blue Ribbon Water Committee Meeting attended by the Public Utility Commission for the rate hearings.

Mr. Reed Schmidt, Principal, Bartle Wells Associates, provided the Committee with an update of the Feasibility Study. He reviewed the key areas of focus by Bartle Wells to determine the feasibility of the Town acquiring the water system. He also commented on recommendation by the Divisional Rate Advocates regarding rate increases.

b. **Discuss Other Matters Within the Committee's Jurisdiction.**

Chairman Coleman asked a series of questions regarding what the State Law requires with respect to alternate energy needed to pump water and how it will affect the cost of water.

Mr. Reed Schmidt, Principal, Bartle Wells Associates, stated that there are multiple issues surrounding the movement of water from Northern California to Southern California. He explained that if the Town were to acquire the water system, it would be

their responsibility to collect revenues to pay those costs. He also stated that the same would apply if the water system were privately owned.

Chairman Coleman asked a series of questions regarding the use of eminent domain for the purchase of utilities.

John Brown, Town Attorney, stated that it is the Town's desire to avoid litigation and achieve the acquisition through negotiations. He responded to questions by the Committee regarding eminent domain.

Mr. Schmidt, Principal, Bartle Wells Associates, commented on his experience with other water systems of acquisitions by public entities, that have used their right of eminent domain.

John Brown, Town Attorney, stated that the Town Council would be looking to the Blue Ribbon Water Committee to address whether public policy supports a recommendation to utilize the power of eminent domain.

Committee Member McNulty expressed concern regarding municipal water companies that are being sold due to aging infrastructure.

Committee Member So felt that the Committee should look at the merits of the Town purchasing the water system and address any concerns surrounding the aging condition of the system at a later time.

Mr. Schmidt, Principal, Bartle Wells Associates, explained the steps that would be taken if the Town were to go through with the purchase of the system. These steps would include engaging with an Engineer who would respond to the aging conditions of the system and obtaining an appraisal. He answered questions from the Committee regarding the affects that the proposed merger would have on the Town's acquisition.

Committee Member Turner questioned the bonding capacity for the Town of Apple Valley.

Discussion ensued regarding the Town's ability to create a sinking fund for the purpose of purchasing the company at a future date based on negotiations with the Carlyle Group.

Committee Member Tartaglini asked a series of questions regarding the bond rating and what the capacity is to borrow.

Committee Member McNulty stated that the bond rating has dropped significantly to all municipalities as a result of decreased property values in California.

Committee Member Christman requested to know what would happen if the bond failed.

John Brown, Town Attorney, stated that the Town Council has expressed no position with respect to the exercise of power of eminent domain. He stated that as Town Attorney, he would ask for the Council's consideration of eminent domain after the Blue Ribbon Water Committee has had an opportunity to review all of the risks and rewards of ensuring the source of supply for funding the eminent domain. He also responded to

concerns by the Blue Ribbon Water Committee regarding the possibility of the Town facing liability.

Committee Member Barbieri requested to know, for the purpose of the Regional Protection Policy Report, when the value of the water rights will be added to the report.

Mr. Schmidt, Principal, Bartle Wells Associates, explained that the water rights are attached to the water utility; if you buy the water system you get access to the water rights. He stated that Bartle Wells is currently looking into this as part of the next step to make sure that assumption is correct.

John Brown, Town Attorney, explained that the value of the water rights would have to be analyzed as part of the feasibility analysis. He also explained that because the water rights held by Apple Valley Ranchos Water Company have been generally represented to Public Utility Commission as being dedicated to a public use, they are not readily transferrable or in any way marketable.

John Brown, Town Attorney, stated that the Town Council is appreciative for the time and effort by the Blue Ribbon Water Committee. He explained that the Town Council would like an opportunity to meet with Mr. Schmidt to determine a schedule of finalization of the study prior to the Committee receiving a draft. Mr. Brown reassured the Committee that the study will be finalized in the near future.

Discussion ensued.

John Brown, Town Attorney, suggested to the Blue Ribbon Water Committee to refer to the upcoming hearings in front of the CPUC for information regarding the financial profile of Apple Valley Ranchos Water Company.

Committee Member McNulty, commented on her attendance at the PUC Hearing. She expressed concern regarding a letter she received from the PUC stating that the rate case has been transferred to a new judge.

John Brown, Town Attorney, stated that BB&K is currently working on a time and responsibility chart to provide to the Blue Ribbon Water Committee.

Committee Member Barbieri requested that the Committee receive a copy of the estimated cash flow.

David Mueller, Hi Desert Politics.org, commented on his attendance at the Mojave Water Agency Urban Water Plan Meeting. He expressed concern regarding the reasons why he felt the Carlyle Group is interested in the water rights. He recommended that the Committee look into the Monterey amendment to better understand what happens when a public entity is turned into a private agency.

Committee Member McNulty commented on the request that she made to the Mojave Water Agency for information regarding who owns all the water rights in the Town of Apple Valley.

Committee Member So encourages that the Blue Ribbon Water Committee meetings be attended by all its members.

Chairman Coleman noted that Committee Member Bill Mc Daniel has undergone surgery; therefore, he has changed the Chairmanship of the Mojave Water Agency Committee to Bernadette Mc Nulty.

Committee Member Mc Nulty requested assistance from Committee Member So who is experienced in water rights.

c. Approval of Minutes from May 26, 2011

Chairman Coleman announced the need to move the approval of the Minutes from May 26, 2011 to the next Blue Ribbon Water Committee meeting to be held on June 29, 2011.

COMMITTEE MEMBER REPORTS:

SCHEDULING OF FUTURE MEETINGS:

Chairman Coleman announced the next Blue Ribbon Water Committee is scheduled for June 29, 2011.

ADJOURNMENT:

Motion by Interim Chairman Coleman, seconded by Committee Member McNulty, and unanimously carried to adjourn the Blue Ribbon Water Committee at 7:24 p.m.

Town of Apple Valley

Update of Feasibility Analysis of Acquisition of the Apple Valley Ranchos Water System

FINAL REPORT
July 2011

BARTLE WELLS ASSOCIATES

Independent Public Finance Advisors

1889 Alcatraz Avenue

Berkeley CA 94703-2714

Tel. 510/653-3399

Fax 510/653-3769

www.bartlewells.com



TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
Acquisition Cost.....	1
Financing Alternatives	2
Operations under public ownership	3
Financial Feasibility	4
INTRODUCTION.....	6
Town of Apple Valley.....	6
Purpose of Feasibility Study	6
PRIVATELY-OWNED WATER UTILITY.....	8
Ownership	8
Regulation	8
Operation.....	8
Water Supply and Consumption	8
Water Rates	9
Customers.....	13
Revenues and Expenses	14
Capital Improvements	16
POSSIBLE PURCHASE PRICES.....	17
Stock Price	17
Reproduction Cost New Less Depreciation	20
Capitalization of Net Income	22
Sales of Other Water Systems.....	22
Purchase Price Estimates Used In This Study.....	24
TRANSACTION COSTS.....	25
Engineering Consultant.....	25
Financial and Accounting	25
Town Counsel	25
CEQA and Annexation	26
Appraisals.....	26
Condemnation Attorney and Trial	26
Contingency Reserve	26
FINANCING OPTIONS	28
General Obligation Bonds.....	28
Mello-Roos Community Facilities District Bonds.....	29
Assessment Bonds.....	30
Revenue-Supported Borrowing.....	32
FINANCING COSTS	34
Property Tax Impact of General Obligation Bonds	36
Special Tax Size for Mello-Roos Bonds.....	36
Impact of COP Issuance on Water Rates	37
OPERATION OF WATER UTILITY UNDER PUBLIC OWNERSHIP .	39
Revenues under Public Ownership	39
Costs under Public Ownership.....	40

Projected Net Revenues at Current Rates	42
Reserves	43
Organization of the Town’s Water Enterprise	44
Lost Revenues	44
RISKS OF PUBLIC OWNERSHIP	45
FINANCIAL FEASIBILITY	47
WATER RIGHTS.....	49
FINDINGS AND CONCLUSION	50
NEXT STEPS	51

EXECUTIVE SUMMARY

The Town of Apple Valley is considering the acquisition of two privately owned water utilities within the town. Apple Valley Ranchos Water Company (AVR), which is owned by the Park Water Company, serves approximately 19,500 water customers and projects annual revenues of \$19.5 million at current rates in 2012. The second water system, which is referred to as the Apple Valley Customer Service Area, is owned by Golden State Water Company (GSWC), formerly Southern California Water Company. The GSWC acquisition is addressed in a separate report.

The California Public Utilities Commission regulates AVR and Park Water and authorizes the water rates and charges.

The Town is considering acquisition of the utility for a number of reasons, chief among them is the ability to set water rates and dictate various policies of the utility with respect to issues like water conservation, new water connections, and rate design. In addition, certain aspects of the operation of the utility could be less costly under public ownership, through the elimination of both profit and tax payments included in the current rate structure, and also through reduced costs to finance capital improvements through tax-exempt bonds.

Acquisition Cost

This feasibility analysis is intended to provide the Town with a bookend comparison for probable costs – the lowest and highest probable costs based on various valuation methodologies. BWA examined four methods to estimate the possible costs to purchase the two water systems: reproduction cost new less depreciation, capitalization of net income, the stock price of the utility, and sales of other water systems. For the purpose of this analysis, BWA selected Replacement Cost New Less Depreciation (RCNLD) as the most likely “high end” purchase price and the estimated stock price of the AVR component of Park Water as the most likely “low end” purchase price.

The RCNLD for the utility using the end of year 2010 figures is \$138.7 million. However after consideration of other elements of the potential acquisition (such as repayment of advances and intangibles), the RCNLD is adjusted to \$121.5 million. The adjusted RCNLD is the highest probable acquisition cost estimated by BWA.

The calculated stock price of the utility is the low estimated acquisition cost at \$47.9 million. Pursuant to a Merger Agreement, Western Water Holdings will acquire 100% of the outstanding capital stock of Park Water and the total amount paid to the shareholders is \$102 million. Park Water owns Apple Valley Ranchos and in addition to the Mountain Water Company. If the total share payment of \$102 million is split between the water companies that Park Water owns proportional to the number of water customers, the payment for Apple Valley Ranchos capital stock would be \$47.9 million.

Added to the estimates of the various purchase prices are estimates of transaction costs for attorneys, appraisers, financial consultants, and consulting engineers. Total transaction costs are estimated to be \$1.9 million if the purchases are negotiated, but if condemnation is required, the transaction costs are increased to \$4.25 million. Total acquisition costs equal the estimated purchase prices plus the higher estimated transaction costs. Total acquisition costs could range from \$52.2 million to \$125.7 million.

Financing Alternatives

Four financing alternatives are examined: general obligation bonds, Mello-Roos (special tax) bonds, assessment bonds, and revenue-supported borrowing such as certificates of participation. Each financing method has its own costs and merits and complexities.

General obligation (GO) bonds are debt instruments secured by the full faith and credit of the borrower. The GO bond would be repaid through taxes levied at an equal percentage on all assessed property value within the Town of Apple Valley. GO bonds require approval by 2/3 of registered voters through a ballot measure. Of the financing options evaluated in this analysis, GO bonds are the lowest cost and are the easiest to administer. If a GO bond is used to finance the acquisition of AVR, the property tax rate is estimated to increase from \$87 to \$209 per \$100,000 of assessed value.

Mello-Roos or “special tax” bonds may also be used for acquisition of facilities. Under a Mello-Roos, the Town could form a Community Facilities District (CFD), and once formed, the District can issue bonds upon 2/3 approval of registered voters within the District. Importantly, a CFD need not be co-terminus with the boundaries of the municipality forming the District. Instead, the Town could design the CFD boundary to be co-terminus with the boundary of the service area of the utility. Those within the CFD would be charged the tax based on a special formula of the CFD’s design. BWA assumes that the tax formula would be based on customer equivalent meters and the special tax is estimated to range from \$138 to \$329 per year.

Assessment bonds are similar to the Mello Roos in that the Town can develop an assessment district that is co-terminus with the boundaries of the service area of the utility. Property owners within the district are charged the assessment based on the defined special benefits that they receive from the project. After the size of the assessment is determined, the assessment must be approved by a majority vote.

Certificates of Participation (COPs) would allow the Town to enter into a tax-exempt lease financing arrangement in lieu of issuing bonds. In the context of this proposed financing, a non-profit corporation or joint powers authority (like the Apple Valley Public Financing Authority) would purchase the utility and then subsequently lease or sell it on the basis of an installment sale to the Town of Apple Valley. The use of COPs would offer Apple Valley the ability to finance this acquisition with revenues generated solely from the customers receiving service from the publicly owned water utility. There would be no

obligation on the Town to raise taxes or meet debt service with resources from its general fund. In addition, COPs do not require voter approval in a general election and do not count as indebtedness under state constitutional debt limitations.

If COPs were used, then water rates would have to be increased by as much as 44% to pay for the high acquisition cost. It is possible that if the Town is able to purchase the AVR system at the stock price of the utility (the lowest probable purchase price estimated in this report), then the water rates would not have to be increased over current rates.

Operations under public ownership

Under public ownership, the sources of revenue would be basically the same as they currently are for the private utility. The primary source of revenue would be water rates and charges. The current rate structure for AVR includes a meter charge that varies by meter-size and inclining block volumes charges; BWA anticipates that this rate structure would remain in place.

Another revenue source is connection fees. Under public ownership, the Town could set a connection fee that pays for expansion-related capital projects caused by new customers and that recovers from new customers a “buy-in” amount related to the existing water system. Another way to collect revenue from new water customers are advances (payback agreements), which is the primary method currently used by AVR. The new customer, before connecting to the water system, pays the utility an advance to recover the costs of water lines and the service connection. The advances are refunded to the customers over a set period of time.

A revenue source available to public agencies and not to private companies is voter-approved taxes. They could be either ad valorem property taxes to pay for general obligation bonds or special taxes to pay Mello-Roos bonds.

Using the rates and charges authorized by the California Public Utilities Commission (CPUC) in the past rate case for the AVR, the estimate of annual operating revenues for the water enterprise would be approximately \$19.5 million in 2012. In the current rate case the AVR hopes to gain approval from the CPUC to increase its revenues by 20% up to about \$23.1 million in 2012.

Operating costs under public ownership would be less than under private ownership. A public agency does not pay income or property taxes or franchise fees while a private owner does. A public owner typically does not budget for depreciation, which is a non-cash expense, while a private utility, regulated by the CPUC, includes depreciation in the revenue requirement to be recovered in utility rates. Finally, a public agency does not earn a profit on its utility enterprises, while a private business can. A return on investment is allowed by the CPUC as a cost of service (i.e., revenue requirement) to be recovered with rates and charges.

BWA estimates the first year's operating costs, which includes operation and maintenance of the water facilities, administrative and general expenses, and an allocation of Town overhead, to be approximately \$13.5 million. Also included in this cost is an estimated \$2 million in annual cost for replacement of water mains.

Net operating revenues are simply operating revenues less operating costs. BWA estimates net revenues for the first year of public ownership would be approximately \$6 million.

Revenues to local governments would be reduced under public ownership. The private water company pays property taxes and franchise fees; a public enterprise does not. BWA estimates that property taxes would be reduced by \$425,000 and franchise fees by \$192,000 due to public ownership.

Moreover, there are risks of public ownership, serious responsibilities, and uncertainties confronting the Town. The Town would be starting a new enterprise and identified issues include:

- GSWC and AVR service boundaries do not exactly coincide with the Town's boundaries and the two systems are not interconnected,
- adequacy of future water supply is uncertain,
- there could be bill delinquencies,
- advances of \$31.1 million would need to be repaid,
- higher O&M costs could occur in the future,
- future capital improvements and replacements are necessary,
- higher water quality standards may occur,
- and, most importantly, the purchase prices are unknown.

Finally, while it is assumed for the purposes of this analysis, that water rights would transfer to the Town after acquiring the utilities, there is uncertainty as to the future costs of these water supplies.

Financial Feasibility

BWA evaluated the economic attractiveness of the water system acquisition by looking at payback and net present value analyses. BWA assumes net operating revenues (operating revenues less operating expenses) to be \$6 million under public ownership. At the high acquisition cost estimate of \$125.7 million, it would take 21 years to pay back the acquisition cost. However, at the low acquisition estimate of \$52.2 million, it would take 9 years to pay back this acquisition cost – a more reasonable payback period.

Assuming a discount rate of 5.25%, the present value of net operating revenues over the 25 year life of the system is \$82.7 million. The present value of net operating revenue is less than the high acquisition cost, but greater than 1.5 times the low cost estimate.

It would be economically attractive to the Town to acquire the AVR water system, if the acquisition cost was in the low range of the estimates developed by BWA in this feasibility update. A summary of the analyses is presented in Table ES1.

Table ES1
2011 Update of Potential Water System Acquisition of AVR
Summary of Acquisition Costs

	Stock Price (low probable cost)	RCNLD (high probable cost)
Purchase Price	\$47,940,000	\$121,469,000
Transaction Cost	<u>4,248,000</u>	<u>4,248,000</u>
Total Acquisition Cost	52,188,000	125,717,000
Amount Borrowed		
Financing with		
GO Bonds	52,465,000	125,995,000
Special Tax	58,210,000	139,445,000
COPs	58,535,000	140,285,000
Financial Impact		
GO Bonds (Tax per \$100,000 AV)	\$87	\$209
Special Tax (\$ per equivalent meter)	\$138	\$329
COPs (% rate increase)	0.3%	44.0%
Years to reach payback of acquisition cost	9	21
Present value of discounted net revenues over 25 years (1)	82,705,000	82,705,000
<u>Less the acquisition cost</u>	<u>(52,188,000)</u>	<u>(125,717,000)</u>
Discounted net revenues over 25 years less acquisition cost	\$30,517,000	(\$43,012,000)

AV = Assessed Value

(1) The discount rate is assumed to be 5.25%

INTRODUCTION

The Town of Apple Valley (the Town) is considering the acquisition of two privately owned water companies, Apple Valley Ranchos Water Company (AVR) and the Apple Valley Customer Service Area (CSA) of the Mountain-Desert District of the Golden State Water Company (GSWC). This report provides a feasibility analysis of the acquisition of AVR. The acquisition of GSWC Apple Valley CSA is analyzed in separate feasibility analysis.

Bartle Wells Associates (BWA) developed an initial feasibility analysis of this acquisition in 2005, and presented that analysis to the Town Council in April 2006. In January of 2010 a draft update to the feasibility study was provided to the Town staff. There has been no official action taken on the acquisition since that time.

The Town has requested that BWA update its feasibility analysis, which is the subject of this report.

Town of Apple Valley

The Town is a general law municipal corporation, incorporated in November 1988. The Town operates under a Council-Manager form of government and currently provides the following services: public safety (police protection), streets, planning and zoning, waste management, and general administrative services. The Town has a public works department and owns and operates a sewer enterprise. The Town provides sewer services to the general public and collects user charges to recover the costs of the sewer services.

The Town does not currently own or operate a water system. The Apple Valley Water District was merged with the Town in 1989. In 1993 the District was dissolved and a special enterprise fund was created. In 1998 the water facilities were sold to the Apple Valley Ranchos Water Company involving an exchange of the Jess Ranch wastewater system which was sold to the Town in 1999.

Apple Valley Public Financing Authority was established to provide financing to the Town for specified capital improvement projects. The governing board of the financing authority is composed of the same members that serve as Town Council members.

Purpose of Feasibility Study

The study presents an updated financial analysis of the acquisition by the Town of the Apple Valley Ranchos water system. It re-evaluates the feasibility of the acquisition using updated financial information from the utility and the General Rate Case Application 11-01-001, filed with the California Public Utilities Commission in January 2011. The focus of the study is to examine the potential financial impact of the acquisition on the Town's taxpayers and water ratepayers.

More specifically, the study identifies what are the potential costs to own, operate, and maintain the water facilities and what are the potential sources of revenues to pay these costs. The feasibility analysis is based on many assumptions, financial estimates and information presented in the water company's past and current rate cases before the California Public Utilities Commission (CPUC).

Of note, BWA's study is not an appraisal; BWA does not offer an opinion of the value of the water facilities. Instead, this study indicates the possible feasibility of acquisition and ownership by the Town.

The updated feasibility study presents a preliminary analysis of the costs of operating the acquired water utility under public ownership. It is a first step. If the Town decides to go forward, additional steps, including refinements of study assumptions and estimates, need to be taken before the Town would make any offers to purchase the water system. These steps are listed at the end of this report.

PRIVATELY-OWNED WATER UTILITY

The Town of Apple Valley is served by two privately-owned water utilities within its incorporated boundaries: Apple Valley Ranchos Water Company (AVR) and Golden State Water Company Apple Valley Customer Service Area (Apple Valley CSA). The following section provides information on the AVR operations.

Ownership

Incorporated as a public utility in 1946, AVR is currently a wholly-owned subsidiary of Park Water Company (Park). Park Water Company is headquartered in Downey, California and owns and operates utilities in California and Montana. Currently, Park provides engineering, financial, regulatory, and other management services to all of its subsidiaries from its main office in Downey.

Regulation

As a private utility providing water service in California, AVR is regulated by the rules of the California Public Utilities Commission. Every three years, AVR applies to the CPUC for revenue increases through a General Rate Case (GRC) proceeding. The last GRC was in 2009 and the current GRC is for Test Year 2012. In the application for the GRC Test Year 2012, AVR has requested a 20% increase in revenues.

Throughout the GRC proceeding, the Town and other parties have the right to request intervenor status in the case and to submit testimony before the CPUC Administrative Law Judge in order to protest the revenue increase. AVR has the opportunity to settle the case with the parties, or if settlement cannot be reached, parties can present legal briefs before the judge. The Administrative Law Judge can then determine the merits of the GRC application and the testimony of the parties and make a ruling on the revenue increase. For the GRC Test Year 2012, intervenor testimony is due in May, evidentiary hearings are to be conducted in June, and briefs will be filed in July and August 2011.

Operation

AVR maintains a small office in Apple Valley where company administrative, customer service, and accounting functions are based. According to its “Revenue Requirements” report for Test Year 2012, AVR requested authorization for 48 regular full-time employees and two temporary employees for a total of 50 in the Apple Valley office (main office staff providing support to AVR are not included in this number).

Water Supply and Consumption

AVR produces domestic water from 24 different wells, with a total combined well capacity of 41.9 million gallons per day. The company produced 14,758 acre feet of water in 2009 for domestic use and sold 13,503 acre feet to metered customers. System-wide unaccounted for water is projected at 9%.

Average unit consumption within the AVR service area has declined steadily over the years, from a peak of 449.3 ccf per residential customer per year in 1970, to 241.1 in 2009. AVR has an active water conservation program that includes extensive public outreach as well as investments in leak repair and operational planning to reduce water waste.

All water produced by AVR is located in the Mojave River Ground Water Basin, currently adjudicated by the Mojave River Basin Area Watermaster. AVR currently has a Base Annual Production Right (BAP) of 13,330 acre feet of water per year. However, due to a groundwater shortage, the Mojave Watermaster administers a stipulated judgment that Producers in the Basin can only pump up to 60% of this amount, or 7,998 acre feet in total. This is AVR's Free Production Allowance (FPA). The 40% reduction from BAP to FPA remains unchanged from the last time this study was completed.

AVR has exceeded its FPA since 1995. To make up for this shortfall in supply, AVR leases or purchases water rights from other agencies or individuals, including Jess Ranch Utilities. To the extent that AVR is not able to find unused FPA to transfer, AVR estimates that the unit cost of these transfers is currently \$166.00 per acre-foot, though future FPA transfers from other Producers have been exhausted.¹

AVR estimates the leased water rights expense to total \$1,664,248 in 2012.

Water Rates

Table 1 details the current water rates for AVR residential service while Table 2 details non-residential water rates. Both sets of rates were adopted by CPUC through Decision 08-09-026 on September 18, 2008.

¹ For the purposes of the updated feasibility analysis, BWA assumes the Town would take over the BAP from AVR and be able to lease or purchase additional water rights from other agencies or individuals under the same terms and conditions. The Town's legal counsel on the acquisition would need to offer a legal opinion on water rights and whether this assumption is valid.

Table 1
2011 Update of Potential Water System Acquisition of AVR
AVR Current Rate Schedule - Residential

Schedule 1 - General Metered Service - Residential

Quantity Rates (1)

Tier 1: 0 - 14 hundred cubic feet (ccf)	\$2.157
Tier 2: 15 - 29 ccf	2.277
Tier 3: Over 29 ccf	2.397

Service Charge

Meter Size	
5/8" x 3/4"	20.75
3/4"	31.13
1"	51.88
1 1/2"	103.75
2"	166.00
3"	311.25
4"	518.75
6"	1,037.50
8"	1,660.00
10"	3,008.75

Source: Cal. P.U.C. Sheet 616-W

(1) The quantity rates shown include an offset increase of \$0.095 per ccf to account for increases in leased water rights

Table 2
2011 Update of Potential Water System Acquisition of AVR
AVR Water Company Current Rate Schedule - Non-residential

Schedule 3 - General Metered Service - Non-Residential

Quantity Rates (1)

All water delivered \$2.257

Service Charge

Meter Size

5/8" x 3/4"	20.75
3/4"	31.13
1"	51.88
1 1/2"	103.75
2"	166.00
3"	311.25
4"	518.75
6"	1,037.50
8"	1,660.00
10"	3,008.75

Source: Cal. P.U.C. Sheet 617-W

(1) The quantity rates shown include an offset increases of \$0.095 per ccf to account for increases in leased water rights

In the current rate case before the CPUC, AVR has requested a 20.2% increase in revenues. The associated proposed residential rate increases are shown in Table 3 in comparison to the current rates. Table 4 shows the current and proposed rates for the non-residential customers.

Table 3
2011 Update of Potential Water System Acquisition of AVR
Current and Proposed Monthly Water Rates - Residential

Schedule 1 - General Metered Service - Residential

Quantity Rates	Current	Current	Proposed	Proposed	% Increase
Tier 1	0 - 14 ccf	\$2.157	0 - 13 ccf	\$2.538	17.66%
Tier 2	14 - 29 ccf	2.277	13 - 26 ccf	2.855	25.38%
Tier 3	> 29 ccf	2.397	> 26 ccf	3.172	32.33%

Service Charge

Meter Size	Current	Proposed	% Increase
5/8" x 3/4"	\$20.75	\$22.94	10.55%
3/4"	31.13	34.41	10.54%
1"	51.88	57.35	10.54%
1 1/2"	103.75	114.70	10.55%
2"	166.00	183.52	10.55%
3"	311.25	344.10	10.55%
4"	518.75	573.50	10.55%
6"	1,037.50	1,147.00	10.55%
8"	1,660.00	1,835.00	10.54%
10"	3,008.75	3,326.30	10.55%

Table 4
2011 Update of Potential Water System Acquisition of AVR
Current and Proposed Monthly Water Rates - Non-residential

Schedule 3 - General Metered Service - Non-residential

Quantity Rates	Current	Proposed	% Increase
All water delivered	\$2.257	\$2.810	24.50%

Service Charge

Meter Size	Current	Proposed	% Increase
5/8" x 3/4"	\$20.75	\$22.94	10.55%
3/4"	31.13	34.41	10.54%
1"	51.88	57.35	10.54%
1 1/2"	103.75	114.70	10.55%
2"	166.00	183.52	10.55%
3"	311.25	344.10	10.55%
4"	518.75	573.50	10.55%
6"	1,037.50	1,147.00	10.55%
8"	1,660.00	1,835.00	10.54%
10"	3,008.75	3,326.30	10.55%

Customers

AVR currently serves approximately 19,500 water customers. Over 91% of these customers are in the residential category, with commercial metered customers making up the bulk of the remainder (about 7%). Customer growth has varied throughout the history of AVR, and is marked by high levels of customer growth in the 1970's and 1980's, stagnant or negative customer growth during the recession of the early 1990's, and a return to high growth rates from 2000 through 2007, when the utility added an average of about 700 new customers per year. Since 2007, the impact of the housing downturn has driven growth rates significantly lower. In 2008, AVR only added a single customer. In 2009, 75 customers were added.

Table 5 details the current customer count for AVR.

At the end of 2010, AVR estimates an outstanding balance of \$31.1 million in advances for extension of service to new customers. These advances are paid back by AVR, without interest, at an annual rate of 2.5%, and individual advances must be returned in full no later than 40 years from the original contract. For 2012, AVR estimates a cost of \$795,000 on these advances.

Table 5
2011 Update of Potential Water System Acquisition of AVR
Apple Valley Ranchos Water Company - Projected Customers 2012

Customers By Class (1)	
Residential	17,742
Business	1,320
Industrial	2
Public authority	42
Private fire service	189
Irrigation - Public Authority	5
Irrigation - Pressure	189
Irrigation - Gravity	1
<u>Temporary Construction</u>	<u>8</u>
Total	19,498
Connections By Meter Size (1)	
5/8" x 3/4"	17,300
3/4"	253
1"	1,324
1 1/2"	171
2"	210
3"	32
4"	58
6"	106
8"	36
10" and 12"	<u>9</u>
Total	19,499

(1) Revenue Requirements Report Workpapers Volume 1 of 2, 2-2

Revenues and Expenses

Table 6 presents historical operating revenues and expenses for 2005 through 2010, based on CPUC Annual Reports and recent unaudited data. For 2010, AVR estimates operating revenues of \$18.0 million, about 91 percent of which was from metered water sales (including fixed monthly meter charges). Total reported operating expenses, including main office expenses, depreciation, and taxes, are projected at \$15.6 million. Net income is estimated to be \$2.4 million. Non-operating revenues include \$500,000 from the regulatory balancing account for a total net income of \$3.0 million.

Table 6
2011 Update of Potential Water System Acquisition of AVR
Apple Valley Ranchos Water Company - Historical Operating Results

	Annual Reports to CPUC					Unaudited 2010
	2005	2006	2007	2008	2009	
Revenues						
Unmetered water revenue	\$0	\$0	\$0	\$0	\$0	\$0
Fire protection revenue	81,791	100,747	129,007	165,224	208,540	203,821
Irrigation revenue	494,649	817,840	1,080,122	1,020,152	1,381,182	1,395,353
Metered water revenue	<u>13,904,381</u>	<u>16,145,095</u>	<u>16,911,032</u>	<u>16,569,609</u>	<u>18,780,589</u>	<u>16,404,373</u>
Total operating revenue	\$14,480,821	17,063,682	\$18,120,161	\$17,754,985	\$20,370,311	\$18,003,547
Expenses						
Operating expenses (1)	\$8,489,507	\$10,020,527	\$11,315,728	\$12,029,003	\$12,120,426	\$10,793,393
Depreciation expense	1,382,595	1,677,503	1,987,513	2,204,635	2,284,316	2,144,562
Amortization and property losses	0	0	9,298	56,949	56,949	52,272
Property taxes	281,219	321,172	362,113	372,855	366,408	348,210
Taxes other than income taxes	166,367	190,873	194,295	213,519	225,081	10,981
California franchise tax	261,187	474,973	353,631	221,297	400,346	177,286
Federal corporate income tax	1,364,573	1,665,397	1,346,700	948,623	1,593,101	1,973,491
Other net income (includes interest expense)	<u>35,267</u>	<u>(665,047)</u>	<u>(62,952)</u>	<u>127,781</u>	<u>13,599</u>	<u>85,152</u>
Operating expenses, taxes, and depreciation	\$11,980,715	\$13,685,398	\$15,506,326	\$16,174,662	\$17,060,226	\$15,585,347
Net income	\$2,500,106	\$3,378,284	\$2,613,835	\$1,580,323	\$3,310,085	\$2,418,200

(1) Includes main office allocation

Capital Improvements

AVR has carried out an aggressive water main replacement program for a number of years which has reduced the number of reported leaks from 3,000 in 1996 to around 600 today. AVR expects to continue to fund main replacements over the next three years, at a total cost of \$4,336,000 over the three years included in the Test Year 2012 Revenue Requirements.

AVR is proposing a range of other capital improvements to its system, including adding pressure reducing stations, corrosion control for storage tanks, replacing aging water connections, installing new automated read meters, various equipment replacements, well site improvements, and office space expansion.

In total, including main replacement, AVR proposes to complete approximately \$13.1 million in plant additions over the three years included in the Test Year 2012 Revenue Requirements. Table 7 details these improvements.

Table 7
2011 Update of Potential Water System Acquisition of AVR
Apple Valley Ranchos Water Company – Company-Funded Capital Improvements

	From General Rate Case (TY2012)		
	2011	2012	2013
Supply, Treatment, and Pumping			
Site Improvement	\$740,000	\$300,000	\$200,000
Pumping	300,000	310,000	321,000
Treatment	80,000	100,000	80,000
Remote Monitoring	324,000	189,000	148,000
General Plant			
Vehicles/equipment	332,000	731,000	706,000
Transmission, Storage, Distribution			
Reservoirs and Tanks	120,000	15,000	0
Transmission and Distribution Replacement	1,907,000	2,207,000	2,584,000
Meters	449,000	499,000	465,000
Total	\$4,252,000	\$4,351,000	\$4,504,000

Source: Apple Valley Ranchos Water Company General Rate Case Test Year 2012, Revenue Requirements Report Workpapers Volume 2 of 2, pages 6 - 13 through 6 - 29.

POSSIBLE PURCHASE PRICES

The Town would be acquiring a water utility plant, which consists of wells, land, pumping plant (structures and equipment), water treatment equipment, transmission and distribution mains, reservoirs and tanks, meters, hydrants, vehicles, and general office equipment. The acquisition would include rights-of-way and easements. The Town would be purchasing the assets of a privately owned water company within the town limits.

For the purpose of this feasibility study, it is assumed that the Town would not be purchasing water rights. From the annual reports filed by the water companies with the CPUC, the rate case documents, and conversations between BWA and the Mojave Water Agency, there do not appear to be separate water rights held by AVR nor Golden State Water which would not revert to the Town should it acquire the assets of the two companies and begin operation of a water utility. Customer advances would be assumed by the Town and would be repaid over their current payment schedules and terms.

This feasibility study considered four different methodologies to estimate total acquisition cost. While the final purchase price will depend on the method of acquisition (negotiation or condemnation) in addition to a number of other factors, BWA has developed a high and a low preliminary estimate of a purchase price solely for the purposes of completing this feasibility analysis.

Stock Price

The stock purchase price for the AVR utility represents the lowest probable purchase price used throughout this analysis.

On January 21, 2011, Park Water Company along with other parties² filed with the California Public Utilities Commission, Application 11-01-019, requesting authority for Western Water Holdings, LLC to acquire and control Park Water Company and Apple Valley Ranchos Water Company. Park Water Company wholly owns and operates Apple Valley Ranchos Water Company. Park Water Company also operates a water system in the southeastern portion of Los Angeles County, which is regulated by the CPUC, and the Mountain Water Company located in Missoula, Montana, which regulated by the Montana Public Service Commission.

Western Water Holdings, LLC is subsidiary of Carlyle Infrastructure Partners, L.P., which was created and is managed by The Carlyle Group, a global alternative asset manager. The Carlyle Group is a private partnership that is owned by a group of individuals and two institutional investors, including the California Public Employees' Retirement System (CalPERS) and affiliates of the Mubadala Development Company. Pursuant to a Merger

² There are numerous parties to the application and merger, including Park Water Company, Apple Valley Ranchos Water Company, Western Water Holdings, LLC, PWC Merger Sub, Inc., Carlyle Infrastructure Partners Western Water, L.P., Carlyle Infrastructure Partners, L.P. and The Carlyle Group. See the Application for an explanation of the interrelationship of subsidiaries and the details of the financial transaction.

Agreement, Western Water Holdings will acquire 100% of the outstanding capital stock of Park Water. Western Water Holdings will pay cash for the shares of capital stock.

Park Water is a California corporation owned and controlled by the Wheeler family. Park Water is a Class A water utility, subject to CPUC regulation. Park Water operates a public utility system in the southeastern portion of Los Angeles County (the Central Basin Division) serving 27,158 active customers as of December 31, 2010, including three separate service areas of Compton/Willowbrook, Lynwood/Rancho Dominguez, and Bellflower/Norwalk. Park Water also operates as a parent company, holding 100% of the outstanding capital stock of two water utilities: Apple Valley Ranchos, also a Class A water utility regulated by the CPUC, which provides water service to approximately 19,500 customers in the Town of Apple Valley, and Mountain Water Company, a Montana corporation that provides water service to approximately 22,300 customers in Missoula, Montana, subject to the jurisdiction of the Montana Public Service Commission.

As BWA understands the Merger transaction, each Park Water shareholder will receive \$4,177.65 for each share of Park Water common stock.³ The Merger Agreement, which is attached to the CPUC application, indicates the total amount paid to the shareholders to be \$102 million.

If the total share payment of \$102 million is split between the water companies that Park Water owns the capital stock proportional to the number of water customers, the payment for Apple Valley Ranchos capital stock would be about \$48 million, see Table 8.⁴

Table 8
2011 Update of Potential Water System Acquisition of AVR
Estimated Stock Price

Park Water Stock Price	\$102,000,000		
<u>Utility</u>	<u>Number of Connections</u>	<u>Percent</u>	<u>Allocated Stock Price</u>
Mountain Water Company	22,300	53%	54,060,000
Apple Valley Ranchos	19,500	47%	47,940,000
	41,800	100%	102,000,000

³ The Carlyle Infrastructure Partners Western Water is purchasing Park Water's *stock*; the assets (water facilities) remain with Park Water. Park Water continues as a water utility regulated by the CPUC. The company's management team will not change as of result of the transaction and the day-to-day operations of Park Water and Apple Valley Ranchos will not be affected by the proposed change of ownership. There will no change in either company's water rates or rate base as a result of the transaction.

⁴ It is unclear to BWA whether the stock purchase includes Park Water's Central Basin Division. The application and Merger Agreement only addresses Apple Valley Ranchos and Mountain Water Company. They do not mention the Central Basin Division as part of the stock transaction.

The Balance Sheet, as of November 30, 2010, for Apple Valley Ranchos, which was attached to the application, shows the capital stock and surplus profit for Apple Valley Ranchos to be \$41,029,806. Assuming the stock payment is \$48 million, then the Park Water shareholders are paid a premium of \$7 million (\$48 million minus \$41 million), or approximately 17%.

In the financial feasibility analysis, BWA has used \$48 million as a possible purchase price by the Town. The Balance Sheet shows no long-term debt for Apple Valley Ranchos. While the Town could not buy the company's capital stock, it could possibly purchase the water facilities at a price equal to the estimated stock payment.

In a response to a data request⁵ Carlyle stated in deciding to purchase Park Water, they evaluated the future potential earnings generated by the water companies owned and operated by Park Water. Carlyle based their financial projections on the principles of utility economic regulation. They made assumptions on rate base, projected revenues and expenses, depreciation, income taxes, and rate of return on rate base. Their financial projections assumed that excess cash flow would be available for future dividend distribution. Carlyle stated their intention to be a "long-term holder of Park Water and create investment value over time." Carlyle's financial analysis relies on a rate base, which under CPUC regulation, is valued at the original cost less straight-line depreciation of the water facilities when they were first placed into service. The water facilities value only reflects the actual investment made by the water company's owners, so that advances and contributions-in-aid-of construction are excluded from rate base. BWA finds Carlyle's financial analysis is similar to the capitalization of new income, a common method to value public utility property.

Based on Carlyle's financial analysis, BWA believes the estimated stock payment of \$48 million would be a reasonable estimate of the value of the Apple Valley Ranchos' water facilities. Moreover, it is close to the rate base (Park Water's investment in the water facilities) that BWA estimates as of November 30, 2010.

Rate Base Category	Amount
Utility plant at cost	\$101,516,965
Depreciation reserve	(23,686,867)
Deferred credits	(9,642,171)
Advances for construction	(29,996,615)
Contributions in aid of construction	(2,080,407)
Rate base	\$36,110,905

⁵ Town's Data Request, Park Water's response to Question 22, dated April 1, 2011.

Reproduction Cost New Less Depreciation

The Reproduction Cost New Less Depreciation (RCNLD) method produces the highest probable purchase price evaluated in this report. Generally speaking, this is an estimate of what it would cost to replace (or reproduce) existing utility assets, accounting for their accumulated depreciation due to age and wear and tear.

For the purpose of this feasibility study, BWA calculates RCNLD by escalating the original cost of the assets by the Handy-Whitman Index of Public Utility Construction Costs to current dollars. From this amount, a depreciation component, representing the loss of value of the existing asset due to age and condition, adjusted to account for any remaining salvage value of the asset, is subtracted. The cost of advances is also subtracted from the RCNLD. The result is an approximation of the value of the utility which accounts for the current cost to replace it, age, wear and tear, and advances due to developers.

Table 9 details the RCNLD calculation for AVR in 2011, which is approximately \$139 million. This is significantly higher than the RCNLD estimated in the 2006 study, and reflects the high level of capital additions since that time. In fact, utility plant in service has increased from \$51.7 million at the start of 2004 to \$103 million at the end of 2010.

Two adjustments are made to the RCNLD estimate. An addition is made for intangibles, such as going concern and goodwill, and the acquisition of billing records, office equipment, and rolling stock. The adjustment for intangibles, et al is 10% of the RCNLD estimate.

The second adjustment is to deduct customer advances of \$31.1 million, which must be repaid to customers. If the Town purchased the water system, the Town would be responsible to assume the liability and pay back the advances.

The RCNLD plus intangibles (estimated at 10 percent) less estimated advances totals \$121.5 million and is used as the highest probable acquisition cost for this analysis.

Table 9
2011 Update of Potential Water System Acquisition of AVR
Apple Valley Ranchos Water Company - RCNLD

	<u>Account</u>	<u>Utility Plant In Service</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Est. Life</u>	<u>Average Age</u>	<u>Year</u>	<u>Reproduction Cost New*</u>	<u>Current Year</u>	<u>Reproduction Cost New Less Depreciation</u>
Organization & Misc.	301	\$274,000	\$0	\$274,000	N/A	N/A	N/A	\$274,000	N/A	\$274,000
Land & Land Rights	306	3,533,000	0	3,533,000	N/A	N/A	N/A	3,533,000	N/A	3,533,000
PLT-SRC SUP Land and Land Rights	310	2,759,000	48,000	2,711,000	N/A	N/A	N/A	2,759,000	N/A	2,711,000
Structures and Improvements	311	29,000	29,000	0	40	31.7	1979	75,000	2011	46,000
Wells and Springs	314	3,546,000	903,000	2,643,000	42	12.9	1998	5,123,000	2011	4,220,000
Other Sources & Supply	317	136,000	40,000	96,000	41	14.1	1997	202,000	2011	162,000
Pumping-Structure/Improvements	321	2,175,000	459,000	1,716,000	31	8.4	2003	3,090,000	2011	2,631,000
Other Pumping Equipment	328	6,801,000	1,263,000	5,538,000	26	9.3	2002	9,662,000	2011	8,399,000
Water Treatment Equipment	332	1,359,000	267,000	1,092,000	20	2.5	2009	1,458,000	2011	1,191,000
Reservoirs & Tanks	342	4,861,000	860,000	4,001,000	51	10.5	2001	4,861,000	2011	4,001,000
T&D Mains	343	49,036,000	13,019,000	36,017,000	42	12.7	1998	87,013,000	2011	73,994,000
T&D Services	345	9,341,000	1,972,000	7,369,000	42	12.6	1998	14,984,000	2011	13,012,000
T&D Meters	346	3,341,000	0	3,341,000	40	6.0	2005	6,117,000	2011	6,117,000
T&D Hydrants	348	7,300,000	1,393,000	5,907,000	41	11.6	1999	10,234,000	2011	8,841,000
Structures and Improvements	390	1,525,000	471,000	1,054,000	31	12.9	1998	2,470,000	2011	1,999,000
Office Furniture & Equipment	391	267,000	162,000	105,000	13	10.1	2001	447,000	2011	285,000
Transportation Equipment	392	1,015,000	566,000	449,000	9	8.9	2002	1,663,000	2011	1,097,000
Tools & Shop Equipment	394	267,000	104,000	163,000	16	8.7	2002	437,000	2011	333,000
Power Operated Equipment	396	1,633,000	763,000	870,000	17	11.0	2000	2,774,000	2011	2,011,000
Communication Equipment	397	2,229,000	754,000	1,475,000	12	6.3	2005	3,107,000	2011	2,353,000
Computer Equipment - Desktops	398	649,000	421,000	228,000	8	8.0	2003	1,019,000	2011	598,000
Computer Equipment - System	398	355,000	96,000	259,000	10	4.3	2007	435,000	2011	339,000
<u>Other Tangible Property</u>	399	<u>556,000</u>	<u>180,000</u>	<u>376,000</u>	N/A	N/A	N/A	<u>556,000</u>		<u>556,000</u>
Total utility plant in service		\$102,987,000	\$23,770,000	\$79,217,000				\$162,293,000		\$138,703,000
								Less Estimated Advances		(31,104,000)
								Plus Intangibles (+10%)		<u>13,870,000</u>
								Total		\$121,469,000

Source: Apple Valley Ranchos Water Company General Rate Case Test Year 2012, Revenue Requirements Report Workpapers Volume 2 of 2, pages 7 - 3 and 8 - 2
 *Reproduction cost new is based on the Handy-Whitman Index of Public Utility Construction Costs

Capitalization of Net Income

The capitalization of the net income earned by an enterprise, like a water utility, can also be used to assess the value of the water facilities. Net income is defined as operating revenues less operating expenses. The capitalization of net income is calculated by dividing the net income of the utility by a discount rate. For a regulated public utility the appropriate discount rate is the rate of return on the rate base authorized by the California Public Utilities Commission.

For Apple Valley Ranchos Water Company, the current General Rate Case, net revenues (income) totaled approximately \$3,855,000 at proposed rates and the rate of return authorized by CPUC was 9.42%. Dividing net income by the rate of return produces a capitalization of net income of \$40.9 million.

Sales of Other Water Systems

The third approach to value water facilities is to examine the sales of other water systems that are comparable to the subject water system. In order for sales to be comparable, they must satisfy four criteria: (1) recent in time; (2) close in geography to the subject system; (3) similar in size, such as the number of customers and type of service connections; and (4) “arms-length” transactions that were negotiated between a willing buyer and willing seller.

BWA has compiled data on water utility sales in California. Sources include decisions approving the sales by the California Public Utilities Commission of privately owned water utilities regulated by the CPUC. Purchases and sales of water utility plants in service must be approved by the CPUC. Water companies submit applications to the CPUC requesting the approval of the sales and transfers of water plants in service and after investigation by CPUC staff the CPUC decides on the sales and transfers.

Sales between publicly owned water utilities are not under the jurisdiction of the CPUC, and sales and transfers effectuated through condemnation may not be reported to the CPUC. BWA has compiled data on these types of sales either as financial advisors to the public agencies or through publicly available documents.

Sales of water systems occur infrequently and under different circumstances. Moreover, most are relatively small, less than 1,000 customers. They are not comparable to the water systems that the Town is considering to buy.

There are four water utility sales that BWA have been directly involved in and that illustrate the difficulty in comparing sales.

In April 2001, the City of Yuba City purchased a water system from the Hillcrest Water Company, owned by a sole proprietor. The water system was adjacent to the City-owned water system and the service area was being annexed into the City. The sale was

accomplished through “friendly” condemnation, where the City and the owner negotiated and stipulated to a purchase price that the condemnation court accepted. The sales price for the Hillcrest water system was \$3,400,000. The number of water customers was 4,475, so that the average price per customer was \$760. The net book value (NBV) of the water system was \$2,406,900, so that the ratio of price to NBV was 141%.

In January 2002, California-American Water Company (Cal-Am) completed the acquisition of four water systems owned by Citizens Utilities of California⁶ (CUCC), which had been approved by the CPUC in September 2001. The sales price for the CUCC systems assigned to Cal-Am was \$161,320,000. The approximate number of water customers was 66,000; thus, the average price per customer was \$2,444. The NBV estimated for the CUCC facilities was \$96,767,000, so that the ratio of price to NBV would be 167%.

In May 2003, the Montara Water and Sanitary District (MWSD) acquired the water facilities in Montara and Moss Beach (i.e., the “Montara District”)⁷ from Cal-Am by means of stipulated judgement in an eminent domain (condemnation) proceeding in San Mateo Superior Court. The acquisition price was the result of a settlement between MWSD and Cal-Am. The purchase price was \$11,097,000. The number of water customers was 1,635; thus, the average price per customer was \$6,787. The net book value estimated for the Montara water facilities was approximately \$5,158,700, so the ratio of price to NBV would be 215%.

In 2008 the San Lorenzo Valley Water District (SLVWD) acquired the Felton water system from Cal-Am. The purchase resulted from a settlement of a condemnation court case in Santa Cruz County Superior Court. The settlement stated that SLVWD would pay Cal-Am \$13.4 million, of which \$2.9 million was the assumption of a Safe Drinking Water State Revolving Fund loan and \$10.5 million in cash. The \$13.4 million represented the fair market value of the operating assets of the Felton water system. The Felton operating assets included utility plant in service as well as watershed land and commercial timber. Utility plant included pipelines, water treatment plant, storage reservoirs, fire hydrants, service connections, and meters. The purchase included general plant, such as furniture, equipment, vehicles, and materials and supplies. Finally, the purchase price considered land rights and water rights.

According to reports filed with the CPUC, there are around 1,300 water customers in the Felton District. The average acquisition cost per customer is therefore around \$10,300. Other data filed with the CPUC regarding Cal-Am's acquisition of CUCC water systems

⁶ Cal-Am's parent, American Water Works, purchased all of the water and sewer systems owned by Citizens Utilities in the United States. As part of this purchase, Cal-Am, a subsidiary, acquired the four water districts owned by CUCC in California.

⁷ The Montara District was one of the four water systems acquired by Cal-Am from CUCC. The other three water districts are identified as Sacramento, Larkfield, and Felton.

and past water rate indicate a net book value for the Felton water system was around \$5,500,000. The ratio of the acquisition value to NBV would be 244%.

The acquisition was in part financed by a special tax. On July 26, 2005, more than 2/3 of the voters within the Community Facilities District (CFD) organized by the County of Santa Cruz approved the District's formation and voted for special taxes to pay for the acquisition of the water facilities in Cal-Am's Felton district.

Purchase Price Estimates Used In This Study

The accuracy of these estimates is largely dictated by the availability of required data. The RCNLD method generally produces the highest purchase price, and as such, it is the most conservative for the purposes of a feasibility analysis.

As developed in Table 9, the total RCNLD for AVR is estimated at \$121.5 million.

The estimated acquisition price used in the 2006 feasibility study was \$97,750,000. This was developed not using the RCNLD calculation but by calculating two times Net Book Value of both the AVR and the GSWC utility. For comparison purposes, the Net Book Value (NBV) of AVR as of 2011 was \$79.2 million. Using the two times NBV method, the updated acquisition price would be $\$79.2 \text{ million} \times 2 = \158.4 million .

In appraising public utilities, consideration can be given to going concern, goodwill and other intangibles. With water utilities, the value of water rights may be included. In addition, the cost of furniture, equipment, vehicles, software, materials and supplies may be included in the acquisition price. Finally, the value of the turning over of billing and accounting records may be considered.

Regarding AVR, there may also be severance costs, because the water system is part of larger enterprise of Park Water.

Given all of these considerations, for the purpose of the updated feasibility study, BWA uses as the highest probable acquisition cost \$121.5 million, the RCNLD of the AVR system with adjustments for advances and intangibles.

The lowest probable acquisition cost used in this feasibility study update is \$48 million, the estimated purchase price of the AVR stock.

TRANSACTION COSTS

If Apple Valley proceeds with the proposed acquisition, it would incur transaction costs above and beyond the purchase price of the utility. Any acquisition will require the use of consulting engineers, financial advisors, legal counsel, and appraisers. The acquisition may also require review under the California Environmental Quality Act (CEQA) and incur annexation costs to bring the water system completely within the jurisdiction of the Town.

These costs vary in relation to the method of acquisition. A negotiated purchase between the Town and the private water utility would have the lowest transaction costs, while an acquisition through condemnation would have higher associated expenses. Increased costs with a condemnation stem primarily from increased legal fees and spending associated with the use of expert witnesses.

The following section describes in more detail the different cost components associated with this transaction, and their estimated amounts are included in Table 10.

Engineering Consultant

The Town would be required to engage a consulting engineer to review the condition of the water system and determine the need for capital improvements. As discussed in the previous section, the AVR has identified the need for substantial capital improvements in the pending rate case, and the adequacy of these improvements should be evaluated. Revisions to this capital program could change the purchase price and risks associated with the acquisition.

There would also be costs associated with inter-connecting and merging the AVR and the GSWC systems so that water service aligns with the boundaries of the Town. This analysis should be undertaken for both negotiated purchase and condemnation, with condemnation costing slightly more due to the added need for expert witness testimony.

Financial and Accounting

The Town would also require the use of financial and accounting assistance. Financial consultants would advise the Town on debt financing issues and conducting a water rate and charge review. An accountant would be required to review past financial statements from the utility, including historical annual reports, and review billing and accounting records.

Town Counsel

Resources would be needed to support the Town Counsel in negotiations and the legal aspects of the acquisition, including the processing and filing of legal documents. The Town can expect that condemnation proceedings would add a level of complexity (and therefore, cost) to this item.

CEQA and Annexation

There will be costs associated with the environmental review of the acquisition. The cost estimated assumes that there will be a negative declaration and no environmental impact report would be required.

The Town may also need to annex some new land into the Town boundaries in order to make the boundaries of the Town and the AVR service areas more co-terminus.

Appraisals

The Town will need to retain an independent appraiser to value the water utility. The appraisal of the system should include all water facilities, intangible assets, water rights, and land that would be acquired by the Town. It is a crucial component of any successful acquisition. The appraisal would form the basis for initial offers to the companies. In a condemnation proceeding, the appraisal would be further supported by the opinion of expert testimony used to establish fair market value for the utility.

Condemnation Attorney and Trial

If the Town should choose to proceed with condemnation proceedings, it would require the services of an attorney specializing in this type of procedure. Within the condemnation proceeding, there would likely be two trials; one dealing with the “right to take” and another establishing just compensation, the fair market value of the condemned water facilities.

Contingency Reserve

The Town should also maintain a contingency reserve, BWA assumes 18% of the transaction costs, to cover unexpected expenses, see Table 10.

Table 10
2011 Update of Potential Water System Acquisition of AVR
Estimated Transaction Costs for Acquisition

Description	Negotiated Purchase	Condemnation
Engineering consultant	\$800,000	\$1,100,000
Financial consultant and accounting	250,000	400,000
Town counsel	250,000	500,000
CEQA and annexation	100,000	100,000
Appraisals (land and water facilities)	200,000	500,000
Condemnation attorney and trials	<u>0</u>	<u>1,000,000</u>
Subtotal	\$1,600,000	\$3,600,000
Contingency reserve (18%)	288,000	648,000
Total	\$1,888,000	\$4,248,000

Source: Bartle Wells Associates estimates

FINANCING OPTIONS

BWA evaluated four major financing options that are available to the Town of Apple Valley to acquire the AVR system. Each of these financing methods has been used by public agencies to acquire water systems from private owners.⁸ Financing would include funding the purchase of water facilities and land and the funding of transaction costs. The four methods of financing that BWA investigated include:

- General Obligation Bonds
- Mello-Roos Community Facilities District (Special Tax) Bonds
- Assessment Bonds
- Revenue-Supported Borrowing

General Obligation Bonds

General obligation (GO) bonds are debt instruments secured by the full faith and credit of the borrower. They would be paid back through the unlimited power of the Town to levy property taxes at any rate or amount necessary to pay semi-annual debt service payments. These taxes would be levied at an equal percentage on all assessed property value within the Town of Apple Valley. Taxpayers in the Town of Apple Valley would pay higher property taxes as a result of this financing.

GO bonds require approval by 2/3 of registered voters. The principal and interest to repay GO bonds would be paid with a general tax based on the assessed value of property. The Town of Apple Valley would have to prepare a ballot measure and would have to indicate the maximum bonds authorized by the vote and an estimate of the maximum property tax.

Each year the Town would set the property tax rate per \$100 of assessed value and provide the tax rate to the County, who collects the tax payments and remits them to the Town. The tax rate will more than likely decline over the life of the GO bonds assuming annual increases in assessed values of property within the town.

The clearest advantage of a GO bond is its low cost. Since GO bonds are backed by the pledge that all necessary revenues will be raised through increased property taxes, they typically carry the lowest risk in the municipal market, which is reflected in their low interest rates. They do not require a reserve fund and they have the lowest issuance costs of the four financing methods reviewed. GO bonds are also relatively simple to administer, as they require no changes in the manner in which property taxes are collected. They are collected along with the other taxes, assessments, and special charges on the property tax bill.

⁸ The Montara Water and Sanitary District issued general obligation bonds; Santa Cruz County issued Mello-Roos (special tax) bonds; Yuba City issued certificates of participation; and Madera County used assessment bonds for a small acquisition.

Since GO bonds are dependent on property tax revenues, their impact on residents of Apple Valley would be proportional to the assessed valuation of property owned by residents. Proposition 13 limits annual increases in the assessed valuation of property to 2% per year, provided that property was not transferred in ownership during the year. When property is transferred between owners, properties are re-assessed to reflect the new market value. Newer property owners, with higher assessed values, would bear a high tax burden as a result of this financing.

Additionally, if the boundaries of the Town of Apple Valley are not co-terminus with the boundaries of the utility being acquired, those within the Town limits would be effectively financing the acquisition for those served by the utilities but located outside the Town limits.

Mello-Roos Community Facilities District Bonds

Mello-Roos or “special tax” bonds may also be used to finance the construction or acquisition of facilities and land. Moreover, they can be used to finance certain, limited types of services and pay for limited operation and maintenance. Under the terms of the Mello-Roos Community Facilities Act of 1982, public entities, such as cities and counties, are allowed to form Community Facilities Districts (CFD), and once formed, these Districts can issue bonds upon 2/3 approval of registered voters within the District. Importantly, a CFD need not be co-terminus with the boundaries of the municipality forming the District.

Bonds issued by a CFD can be used to purchase any real property with an estimated useful life of more than five years. They are *not* secured by the unlimited power of a local government to levy property taxes. Instead, a special tax is levied on all properties within the CFD in order to pay semi-annual debt service requirements. This special tax is not an *ad valorem* tax but instead based on a special tax formula. There is considerable flexibility in its structure, with factors such as square footage developed, density of development, acreage, and zoning commonly being used to calculate the tax. Equivalent water meters can be used in the case of acquiring water facilities. Taxpayers in the proposed CFD would pay higher taxes as a result of this financing.

The special tax is fixed and does not change over the life of the bonds. Increase property values would not affect the level of the special tax. Moreover, the special tax is not tied to use of the water system, such as water consumption or metered water sales.

A CFD can provide for the prepayment of special tax before bonds are issued. But after bonds are issued any prepayment of special taxes would be very difficult and would require a complex formula. Moreover, early refunding of the bonds could be difficult and would more than likely require a recalculation of the special tax and may require another vote with 2/3 voter approval of any change in the special tax.

Mello-Roos bonds have the advantage of flexibility. In this case, the Town could design the CFD boundaries to be co-terminus with the boundary of the service area of the utility. This would ensure that only those properties directly impacted by the acquisition would be assessed the special tax. In addition, because there is no requirement that the tax be based on the “special benefit” a parcel receives, the District can tailor the rate and method of apportionment to best meet revenue requirements and the political environment, potentially improving the likelihood of voter approval.

At the same time, Mello-Roos financings are very complex. The flexibility allowed in constructing the special tax apportionment also means that these formulas can be very intricate and difficult for the property owner to understand. Engineering and financial analysis would be required to develop the special tax formula. Additionally, because Mello-Roos bonds are not secured by the full faith and credit of the issuing agency, they are considered riskier than GO bonds and carry higher interest rates. Mello-Roos bonds also typically provide for a reserve fund and bond insurance may be advisable, two factors which also increase the effective cost of this type of financing for the Town.

Assessment Bonds

The Town could possibly use assessment bonds to finance the acquisition of the water company.⁹ Assessment bonds are typically used to finance capital improvements to a relatively small area where the special benefits of the public project can be readily assigned to assessed properties benefiting from the project. They may not be the best method to finance a large water system acquisition for the whole Town which could provide a general benefit to the public at large. One general benefit of a publicly owned water system is fire protection.

The most common assessment bonds used by local governments to finance public projects are issued under the Improvement Bond Act of 1915. The 1915 Act, which only involves the issuance of bonds, requires another statute to establish the assessment district, authorize public improvements, and impose the assessments. Typically the Improvement Bond Act of 1913 (or sometimes the Act of 1911) is used. The use of assessment bond financing and the establishment of an assessment district are subject to Proposition 218, which added Article XIID to the California Constitution.

An assessment bond is a financing method where bonds are secured by liens placed upon all property within a defined geographic area (the assessment district). Similar to both GO bonds and special tax bonds, owners of impacted parcels of land would fund the cost of annual debt service.

⁹ The Town has experience with assessment bonds. Assessment District No. 3 Improvement Bonds (1915 Act bonds) are outstanding and were originally issued by the Apple Valley Water District in 1988 to fund public improvements. Assessment District No. 2-B sold limited obligation improvement refunding bonds in 1991 to fund sanitary sewer facilities. These bonds were refunded with a 1996 assessment bond issue. The Apple Valley Water District has issued Special Assessment District 98-1, 1915 Improvement bonds to finance sewer improvements in the Jess Ranch area.

Assessments are not taxes, and their individual size is not tied to the assessed valuation of the property. Instead, assessments are calculated based on the proportional “special benefit” that a property receives from the improvement to be financed. Undeveloped land must be included in the assessment district. As with community facilities districts, the local government is allowed some latitude in determining the method of apportionment. In this context, the Town would likely choose some proxy for water use such as lot size or type of customer to determine the size of the assessment for each parcel.

The procedure to issue assessment bonds and to set assessments for water service is described as follows. After the size of the assessment is determined, a notice is mailed to all impacted property owners along with a ballot, and a public hearing is held within 45 days to address constituent concerns and tally the vote to protest the project. Votes are weighted according to the proportional financial obligation of the affected property. A majority protest means that the district cannot be formed. If approved (i.e., not a majority protest), individual assessments are then placed as liens on property as security for any future bond issues. The property owner has the option of paying off the lien in cash, with that amount then being deducted from the total size of any bond issue, or deferring payment for a time period generally up to 30 years.

The assessment district creates a fixed dollar amount special assessment lien on each property of the district. The lien lasts for ten years or until bonds are issued, whichever happens first. If bonds are issued, the lien is for the term of the bonds, plus four years.

Special assessment bonds are secured by the unpaid amount of the fixed assessment liens on property. State law governs their payment dates so that principal is paid annually on September 2 and interest is paid semiannually on March 2 and September 2.

There are two opportunities to pay off assessment debt. The first is during the minimum 30-day cash payment period after the creation of the district. During that period, the principal amount of the assessment may be paid in whole or in part. When the bonds are sold, that person’s share of any bond reserve and discount is rebated to that person. The second is after bond issuance, when a person can prepay that person’s share of the total principal amount, any prepayment penalty, a share of interest to the next available bond call date, and administrative costs.

As with community facilities districts, assessment districts have the advantage of flexibility; the boundaries of the district can be created such that they are co-terminus with the boundaries of the service area of the utility. In addition, because assessments related to water service are not considered taxes under California law, they are not subject to 2/3 voter approval. Assessments must, however, comply with Proposition 218, which outlines the legal framework for the establishment and use of assessments in raising local revenue.

Assessment bonds do have a number of disadvantages over other financing options, which when taken together may make this a higher cost method to finance the acquisition.

Issuance costs are higher than for GO bonds, as there are increased costs associated with the creation of the district and the need for a civil engineer to determine the special benefit for each parcel and to calculate the assessments. In addition, since debt service is only secured by the liens on property and not by the unlimited power of the Town to levy taxes, assessment bonds are considered riskier investments. To provide the bonds with appropriate security and allow for successful marketing, the property securing the lien must have value sufficient to cover the assessment. As a general guideline, the ratio of assessed value to assessment lien should be at least 3:1. In either case, assessment bonds will likely carry higher total interest costs than GO bonds and require a one year reserve fund.

Revenue-Supported Borrowing

There are two major revenue-supported borrowing options available to the Town to finance this purchase. With this type of financing, the Town does not incur any further indebtedness; instead, the Town must pledge a portion of the enterprise's future net revenues to meet the debt service. Revenue bonds take a number of different forms, to include public enterprise revenue bonds, public lease revenue bonds, and certificates of participation.

Public Enterprise Revenue Bonds

Traditional revenue bonds can be used to finance any public improvement of revenue producing nature. They are secured by a lien upon future revenues of the proposed improvement. Approval of a revenue bond is subject to provisions of the Revenue Bond Law of 1941; they can be issued upon adoption by majority vote of the governing body of the local agency. A majority vote must be obtained at an election on the proposition of issuing bonds.

Most revenue bonds are issued by means of a joint powers authority (JPA) that does not require an election or voter approval. The joint powers authority can be a financing authority created by the two public agencies, such as a city and its redevelopment agency. If a JPA is used, then the more typical financing is the use of certificates of participation, which are described below.

Effective marketing of revenue bonds requires a well-established operating history of the enterprise to ensure that future revenues will meet required debt service. The issuer may also have to covenant to establish rates and charges that are sufficient to meet debt service.

Financing Leases and Certificates of Participation

Slightly different than traditional revenue bonds, but used more frequently, is lease financing using certificates of participation (COPs).¹⁰ COPs would allow the Town to

¹⁰ The Town has previously issued certificates of participation. In 1999, the Town sold COPs to finance the construction of the new Town Hall and new county office building. In 2001, the Town sold variable rate demand COPs to refund the 1999 COPs.

enter into a tax-exempt lease financing arrangement in lieu of issuing bonds. In this arrangement, a third-party owner would purchase the water company and then lease the system back to the Town. Security for the lease is supported solely by the net revenues of the Town's water system. The lease can be structured as an installment sale/purchase agreement¹¹, in which the Town would assume ownership of the facilities at the closing of financing, typically two or three weeks after the COP sale.

In the context of this proposed financing, a non-profit corporation or joint powers authority (like the Apple Valley Public Financing Authority) would purchase the utility and then subsequently lease or sell it on the basis of an installment sale to the Town of Apple Valley. As with any lease or installment sale, structured payments have both principal and interest components and are tax-exempt. The lessor assigns its rights to receive future lease or installment payments to a trustee, and undivided shares of these future payments can subsequently be issued as "certificates of participation" and marketed to third-party investors. In practice, the structure, marketing, and sale of COPs is very similar to that of traditional revenue bonds, and their security is provided only through the ability of the utility to produce net revenues sufficient to meet its payments.

The use of COPs would offer Apple Valley the ability to finance this acquisition with revenues generated solely from the customers receiving service from the publicly owned water utility. There would be no obligation on the Town to raise taxes or meet debt service with resources from its general fund. Since the acquisition is paid back from water rates and service charges, the distribution of financial burden is judged equitable because it is spread proportionally among customers based on water use. In addition, COPs do not require voter approval in a general election and do not count as indebtedness under state constitutional debt limitations.

COPs may be the highest total cost method of financing the acquisition as they are viewed as riskier investments in the bond market and as such must carry higher interest rates. A reserve fund is generally required. In addition, COPs must comply with "debt service coverage requirements." This means that net revenues, after meeting all operating and maintenance expenses, must be 125% of the maximum annual debt service.¹² This coverage requirement means higher rates for customers, but may also allow the Town to build capital reserves.

¹¹ The Town has experience with an installment sale/purchase agreement. In 2004, the Town entered into an installment purchase agreement with the Mojave Desert and Mountain Integrated Waste Management Authority. The agreement was established when the Authority issued revenue bonds to refund bonds that were originally issued to fund the design and construction of a materials recovery facility. The Town's installment payments come from service revenues which consist primarily of rates and charges imposed by the Town for solid waste management services.

¹² This is similar to the debt service coverage requirement applicable to the Mojave Waste Management Authority's installment purchase agreement.

FINANCING COSTS

For the purposes of this feasibility analysis, financing includes funding for the purchase of water facilities and all transaction costs.

Table 11 summarizes overall financing costs for the four different financing methods discussed in the previous section. Each method results in a different annual debt service.

The analysis assumes a total acquisition cost of \$52.2 million at the stock price and a total acquisition cost of \$125.7 million at the RCNLD price for AVR which include the high estimate (condemnation) for transaction costs of \$4,248,000.

Financing methods differ in terms of interest rate, need for a debt service reserve fund, issuance cost, and underwriter's discount. GO bonds are significantly cheaper to issue, as they do not provide for underwriter's discount and have lower fees associated with the use of outside consultants and bond counsel. They also do not require a reserve fund and carry the lowest interest rate which BWA estimates in the range of 5.25%. Overall debt service on GO bonds is estimated to range from \$3.8 million to \$9.2 million per year over 25 years.

For a special tax bond, the average interest rate is 6.25% reflecting the lower security of that method of financing. Issuance costs are greater because of the complexity of the special tax bonds and the need for a special tax consultant. Bond underwriters are allowed to charge a discount with special tax bonds, which is assumed to be 1.5% of the total issue. A reserve fund equal to one year's debt service would be required. Special tax levies are also subject to delinquencies (assumed to be 1.5% of the total annual levy) and annual administration costs (assumed to be \$50,000). The annual debt service for a special tax bond is estimated to range from \$4.8 million to \$11.4 million.

An assessment bond is assumed to have an interest rate of 7.00%, as they are among the highest risk of municipal financings. Issuance costs, underwriter's discount, and annual delinquencies are also assumed to be about the same as for a special tax bond. Annual administration is assumed to be \$75,000. In total, the average annual debt service plus admin costs for an assessment bond is estimated to range from \$5.2 million to \$12.3 million.

The average interest rate for COPs is assumed to be 6.75% for this feasibility analysis. Issuance costs would be lower than special tax and assessment bonds, but the COPs would need to be rated and would need an investment grade rating to be sold. A reserve fund equal to one year's debt service would be required. Because of market acceptance, the underwriter's discount for COPs would be lower than for special tax or assessment bonds (estimated at 1%). The average annual COP payment is estimated to range from \$4.9 million to \$11.7 million.

Table 11
2011 Update of Potential Water System Acquisition of AVR
Financing Options for Acquisition

	GO Bonds		Special Tax		Assessment		COPs	
	Stock Price	RCNLD	Stock Price	RCNLD	Stock Price	RCNLD	Stock Price	RCNLD
Total estimated acquisition cost (1)	\$52,188,000	\$125,717,000	\$52,188,000	\$125,717,000	\$52,188,000	\$125,717,000	\$52,188,000	\$125,717,000
Acquisition cost	47,940,000	121,469,000	47,940,000	121,469,000	47,940,000	121,469,000	47,940,000	121,469,000
Transaction cost	4,248,000	4,248,000	4,248,000	4,248,000	4,248,000	4,248,000	4,248,000	4,248,000
Issuance costs	275,000	275,000	495,000	495,000	455,000	455,000	295,000	295,000
Financial advisor	100,000	100,000	150,000	150,000	150,000	150,000	100,000	100,000
Bond counsel	100,000	100,000	150,000	150,000	150,000	150,000	100,000	100,000
Expenses	20,000	20,000	40,000	40,000	40,000	40,000	20,000	20,000
Trustee	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Bond ratings	40,000	40,000	40,000	40,000	0	0	60,000	60,000
Special tax consultant	0	0	100,000	100,000	0	0	0	0
Assessment engineer	0	0	0	0	100,000	100,000	0	0
Underwriter's discount (2)	0	0	860,000	2,061,000	865,000	2,073,000	573,000	1,377,000
Bond insurance + surety	0	0	0	0	0	0	0	0
Miscellaneous	2,000	3,000	5,000	3,000	4,000	2,000	1,000	2,000
Reserve fund (3)	0	0	4,662,000	11,169,000	5,023,000	12,038,000	4,858,000	11,649,000
Total issue	\$52,465,000	\$125,995,000	\$58,210,000	\$139,445,000	\$58,535,000	\$140,285,000	\$57,915,000	\$139,040,000
Term (years)	25	25	25	25	25	25	25	25
Interest rate (4)	5.25%	5.25%	6.25%	6.25%	7.00%	7.00%	6.75%	6.75%
Annual debt service	\$3,816,000	\$9,165,000	\$4,662,000	\$11,169,000	\$5,023,000	\$12,038,000	\$4,858,000	\$11,664,000
Plus: Annual delinquency (1.5%)	0	0	70,000	168,000	75,000	181,000	0	0
Plus: Annual administration	0	0	50,000	50,000	75,000	75,000	0	0
Total annual debt service plus admin	\$3,816,000	\$9,165,000	\$4,782,000	\$11,387,000	\$5,173,000	\$12,294,000	\$4,858,000	\$11,664,000

- (1) Purchase price estimate plus transaction costs (condemnation).
(2) 0% for GO; 1.5% for Special Tax and Assessment; 1% for COPs.
(3) A reserve fund equal to one year's debt service is assumed. GO bonds do not require a reserve fund.
(4) Estimated for financial planning purposes; rates may vary based on market conditions.
Source: Analysis by Bartle Wells Associates.

Property Tax Impact of General Obligation Bonds

Table 12 shows the impact of a general obligation bond issue on the property taxes of Apple Valley. Total secured valuation in 2010 was \$4.38 billion. The issuance of GO bonds could increase property taxes by an estimated range of \$87 to \$209 per \$100,000 assessed value.

Table 12
2011 Update of Potential Water System Acquisition of AVR
Estimated Property Tax Impact of General Obligation Bonds

Stock Purchase Price	
Annual Debt Service	\$3,816,000
Assessed value in Apple Valley (1)	4,378,000,000
Tax per \$100 AV	0.087
Tax per \$100,000 AV	\$87
RCNLD Purchase Price	
Annual Debt Service	\$9,165,000
Assessed value in Apple Valley (1)	4,378,000,000
Tax per \$100 AV	0.209
Tax per \$100,000 AV	\$209

(1) From 2010 Assessment Roll Re-cap Totals San Bernardino County, secured value

Special Tax Size for Mello-Roos Bonds

Table 13 calculates the estimated special tax that would be levied on water customers should this acquisition be financed by Mello-Roos special tax bonds. The annual tax is calculated based on the estimated number of equivalent meters in the Town. With an annual debt service plus an administration charge and considering delinquencies, the total cost would range from \$4.8 million to \$11.4 million assuming approximately 34,653 equivalent meters, a single family residence with one equivalent meter (5/8 x 3/4 inch) would face an annual special tax levy of \$138 to \$329.

Table 13
2011 Update of Potential Water System Acquisition of AVR
Estimated Impact of Special Tax Bonds

Stock Purchase Price	
Estimated number of customers	19,498
Estimated number of equivalent meters	34,653
Annual debt service plus administration and delinquency	\$4,782,000
Annual cost per equivalent meter	\$138
RCNLD Purchase Price	
Estimated number of customers	19,498
Estimated number of equivalent meters	34,653
Annual debt service plus administration and delinquency	\$11,387,000
Annual cost per equivalent meter	\$329

Impact of COP Issuance on Water Rates

Certificates of participation (COPs) would be secured by net water revenues generated from the water enterprise. Table 14 estimates the impact on rates of a COP issuance. Of note, the findings in this table (specifically, the estimated annual net revenues at current rates) are drawn in part from the findings summarized in Table 15, in section PROJECTED NET REVENUES AT CURRENT RATES.

With an annual debt service ranging from \$4.9 million to \$11.7 million, total net revenues before debt service would need to be at least \$6.1 million to \$14.6 million (125% of the estimated annual debt service) to meet required coverage tests. Using current net revenues of AVR under public ownership of \$6 million (see Table 15), the utility may have to generate additional revenues to meet the net revenue requirement of the debt.

If the RCNLD is the purchase price of the AVR system, revenues would need to increase by about \$8.6 million to meet the debt coverage requirement, meaning that rates would need to increase about 44%.

If the AVR system is acquired using the stock purchase price, then current revenues would nearly be sufficient to meet debt coverage of 125% of the annual debt service cost. An addition \$57,000 in revenues would need to be generated in order to meet the debt coverage requirement, which equates to a 0.3% rate increase.

Table 14
2011 Update of Potential Water System Acquisition of AVR
Estimated Impact on Water Rates of COP Issuance

Stock Purchase Price	
Annual debt service (estimated)	\$4,858,000
Net revenue requirement (125% annual debt service)	\$6,073,000
<u>Less net revenues (at current rates)</u>	<u>6,016,000</u>
Additional revenue needed	(\$57,000)
Total projected revenues (current rates) (Table 15)	\$19,483,000
Required 2012 rate increase to repay COPs	0.3%
RCNLD Purchase Price	
Annual debt service (estimated)	\$11,664,000
Net revenue requirement (125% annual debt service)	\$14,580,000
<u>Less net revenues (at current rates)</u>	<u>6,016,000</u>
Additional revenue needed	(\$8,564,000)
Total projected revenues (current rates) (Table 15)	\$19,483,000
Required 2012 rate increase to repay COPs	44.0%

OPERATION OF WATER UTILITY UNDER PUBLIC OWNERSHIP

If the Town were to successfully acquire the water utility, it would begin operation of a water enterprise. By definition, an enterprise fund of the Town must be self-sufficient; it must cover all expenses, including cost of operations, debt service, and capital, with its own revenues. The following section reviews both the sources of revenue under public ownership, as well as projected expenses of operating the enterprise as a public, rather than private utility.

Revenues under Public Ownership

Water Rates and Charges

The primary means of generating revenue will continue to be through water rates and charges. AVR levies “fixed plus variable” water rates, meaning all customers pay a fixed monthly charge for access to the system, and then a unit charge for each hundred cubic feet (ccf) of water consumed. For the variable charge, AVR switched to an inclining block rate structure during their last General Rate Case, with three tiers of different water rates.

The meter service charge recovers in part the fixed costs to the utility, including meter reading and billing, that do not vary regardless of water use.

It is anticipated that the Town would continue with the three-tiered structure of AVR that utilizes increasing block rates in order to promote conservation.

The Town could also incorporate other elements into its rate design, such as standby service or drought pricing. AVR has a low-income affordability program, and the Town would have to determine whether or not to maintain this program.

Connection Fees

The Town can also generate revenue through connection fee charges to new customers. Generally speaking, these fees have two components. Part of the fee is calculated to reimburse the utility for the actual cost of the new connection, including the meter, as well as the cost required to connect the customer to the system and set up the customer account. The other portion of the fee recovers the proportional cost of both existing and future capital assets required to serve the new connection.

Upon completing the acquisition, the Town would most likely complete a separate analysis of this fee to determine the proper amount to charge future new connections adding to the system.

Advances

Advances are another method that a utility can use to recover the costs associated with building new capital facilities and infrastructure to extend new service to new customers. Developers advance the utility the funds necessary to build new facilities such as collection

mains and the utility then repays those advances over a period of up to forty years, interest free.

Importantly, AVR has financed a significant portion of its current infrastructure with advances. According to its most recent rate case, it has over \$31.1 million in outstanding advances. The yearly payments on those advances is estimated at \$795,000 for 2012. The Town could continue to use this method as a means for adding new infrastructure to the system, or, at the very least, it is assumed that the Town would have to continue to repay these advances under their current terms.

Contributions

The utility can also generate revenue through in-kind contributions of infrastructure. In this arrangement, a developer will typically agree to build the necessary water facilities to connect a new development to existing facilities at his own expense. Unlike an advance, contributions are not repaid.

Taxes

Under public ownership, the water utility would be eligible to receive tax revenue to support its activities. Should the Town choose to finance this acquisition with GO bonds or Mello-Roos special tax bonds, it would also generate revenues to meet debt service from a property tax or a special tax.

Costs under Public Ownership

The operating costs for a publicly-owned utility will differ from those incurred by a private utility. The publicly-owned water utility would not pay income taxes, property taxes, nor a profit. However, expenses for operations and maintenance (O&M) and administrative and general expenses (A&G) would be similar.

Personnel

The new Town water utility would require personnel to staff all of the required positions. This study assumes that the Town would continue to employ all employees from the utility with the exception of Mr. Wheeler. The employees would fill necessary administrative, billing, and operations positions within the utility.

Operations and Maintenance

The Town's water utility would incur expenses related to the operation and maintenance of the water system. Major expenses in this category include funding for payroll, repairs of equipment, and maintenance of infrastructure. The utility would also incur expenses for purchasing power to run pumps, and leasing water to meet demand in excess of its free pumping allowance. To the extent that prices for commodities like power and water vary each year, the utility could face significant uncertainty in these expenses. BWA assumes that under public ownership, the operations and maintenance costs would be reduced by \$259,147, the portion of Mr. Wheeler's salary that is booked as a utility expense, but that all other O&M expenses are similar to what AVR now incurs.

Administrative and General

The Town's water enterprise would also face expenses to cover administrative and general expenses of the utility, such as costs associated with rent for office space, the cost of office supplies, and periodic use of outside services such as accountants and engineers. BWA assumes that payroll, office expenses, and employee benefits would be the same under public ownership with the exception of Mr. Wheeler's salary. BWA assumes that under public ownership, payroll would be reduced by \$297,665, the portion of Mr. Wheeler's salary that is booked as a nonutility expense.

Town Overhead

While under public ownership there is no corporate overhead, there would be Town overhead. A certain portion of the Town's general overhead would likely be allocated as a cost to the utility. This cost would cover the proportion of the Town's facilities and personnel that support the utility. This would include time spent by the Town Manager and Town Counsel in support of the utility, in addition to any general support provided by other town staff and facilities.

For the purposes of this feasibility study, BWA assumes that under public ownership the overhead cost would be reduced by half and equal approximately \$1.1 million.

Capital Costs - Replacements

The utility will also need to provide for yearly replacements of equipment and infrastructure as it ages. This yearly replacement is primarily a function of the size and age of a system. AVR is in the midst of an aggressive main replacement campaign, and has budgeted over \$4.3 million over the next three years to replace the oldest mains in the system.

Another method for estimating the annual cost of replacement is to examine total annual depreciation. For the year 2012, AVR estimates a depreciation expense of \$2.7 million.

For the purposes of this analysis, BWA assumes that the utility would have an annual water main and equipment replacement program of \$2 million. This amount is included in Table 15 under Projected Operating Results Under Public Ownership.

Capital Costs - Additions

The Town would also need to provide for future capital additions to the systems. In some cases, new extensions for service cannot be funded by advances or contributions, and the utility would face significant costs to develop these new additions. AVR estimates in the current rate case that it will require about \$13.1 million in additions to its system over the next three years, including well site and booster pump improvements. (Details on the proposed capital additions to each utility are included in Table 7).

It is unknown at this time what, if any, additional costs would be required to connect the AVR and GSWC systems, or if there would be savings associated with combining the well capacity and storage of the two systems.

Projected Net Revenues at Current Rates

Using the historical operating results of the AVR, BWA has developed an estimate of the net revenues for the year 2012. This estimate is based on the operating expenses included in the proposed AVR General Rate Case (Test Year 2012 Revenue Requirements).

Importantly, a number of significant expenses are eliminated under public ownership, including taxes (Federal and state) as well as depreciation (which is not typically treated as a cash-funded expense in public utilities), and rate of return (or profit).

In addition, BWA has assumed that Mr. Wheeler's salary would be eliminated. The water utility would also incur Town overhead costs estimated at \$1.1 million per year. As discussed under the costs under public ownership, BWA has also assumed a \$2 million annual water main replacement requirement in overall expenses.

Due to the controversy over the rate increase proposed in the AVR 2012 General Rate Case, revenues are projected based on the current rates.

Table 15 details these findings. In total, BWA estimates that at current rate level, the combined utility would have net operating revenues of approximately \$6 million annually.

Table 15
2011 Update of Potential Water System Acquisition of AVR
Projected Operating Results Under Public Ownership

	2012
Total operating revenues - AVR System (1)	\$19,483,000
Operating Expenses - AVR System	
Operations	726,000
Production	
Purchased power	1,042,000
Replenishment charges	234,000
Leased water rights and water purchases	1,664,000
Chemicals	27,000
Customer accounts	1,033,000
Uncollectables	65,000
Maintenance	1,185,000
<u>Clearings</u>	<u>399,000</u>
Total operating expenses - AVR	6,375,000
Admin and General Expenses - AVR System	
Payroll and office expense	\$1,434,000
Insurance, injuries and damages	785,000
Employee benefits	1,480,000
Regulatory expenses	93,000
Outside services	274,000
Rents	17,000
<u>Town overhead (General Fund transfer)</u>	<u>1,009,000</u>
Total Admin and General Expenses	5,092,000
Annual water main replacement program	2,000,000
Total revenue requirement - AVR System	\$13,467,000
Net operating revenue - AVR System	\$6,016,000

(1) Total of domestic and irrigation revenues at present rates

Reserves

Owning the water systems would require the Town to establish reserves at the beginning of public operation. The Town would start with zero reserves and would need to fund them quickly. Possible reserves would include: capital, operating, replacements, vehicles, equipment, emergency, and rate stabilization. How much to fund and target levels to be held in the reserves would be established by policy decisions made by the Town Council.

Organization of the Town's Water Enterprise

The Town's water utility would be organized like other public enterprises. The Town Council would act as the Board of Directors and would set policy, establish rates and charges, and provide legislative oversight. The Town Council would be politically accountable to the water utility's ratepayers. Under Town ownership, the utility would *not* be regulated by the CPUC.

The Town's water utility would have a General Manager, who would report to the Town Council. Legal, financial, and accounting services would be provided as they now are for the sewer enterprise. The water utility's audit would be done at the same time as the audit of the Town's other funds.

BWA assumes that operation, maintenance, administration, billing, and human resources would be largely the same as it is now for the private water utility. There would be no changes in staffing or personnel except for the reduction of Mr. Wheeler's position.

Lost Revenues

Under public ownership, there will be the loss of two sources of revenues to local governments: property taxes and franchise fees.

The privately owned utilities pay property taxes. If the Town were to acquire the utility, this source of revenue (estimated at \$425,000 in 2012) would be eliminated. The other lost revenue would be franchise fees. AVR estimates that it will pay the Town approximately \$192,000 in franchise fees in 2012.

RISKS OF PUBLIC OWNERSHIP

There are many risks and uncertainties that confront the Town if it were to acquire the water utility. The Town would commence a new enterprise with a large number of employees and customers. The Town does not currently own and operate a water enterprise. While the Town owns and operates a sewer enterprise, a water enterprise would require many responsibilities including supplying water, billing and accounting for customers, maintaining water facilities, etc. Operating costs may be higher than what is indicated in this feasibility study and what was authorized by the CPUC.

The AVR and GSWC water systems are not interconnected and the Town would have to evaluate the connection of the two systems or whether to maintain separate services.

The Town's boundaries differ from service boundaries of the two water utilities, which would need to be resolved before acquiring the water facilities. More than likely, the Town would acquire all water facilities and not exclude the facilities outside the Town limits. The current owners would not want to be responsible for small separate water systems. So, the Town would have to consider how to serve these areas.

The costs of acquiring the AVR system is unknown. This feasibility study presents preliminary estimates of acquisition, including transaction and financing costs. Acquisition costs depend upon the inventory and condition of the water facilities. They depend upon negotiation or if eminent domain is employed, the condemnation judgment. Transaction and financing costs depend upon the complexity of the acquisition, how much time it takes to complete the acquisition, and the cooperation of the current owners.

Furthermore, there could be some uncertainty with respect to accessing municipal debt markets to finance this acquisition and that uncertainty would impact the cost of the acquisition. For one, there is a risk that voters approve a GO or special tax bond that is not sufficient for the final price that is determined, particularly if the final price is set by means of condemnation. In addition, if financed by COPs, the security of the bonds depends on the ability to run the water enterprise and generate sufficient revenues; to the extent that the success of the acquisition is unresolved, this would impact the willingness of investors to underwrite securities for the transaction.

Adequacy of water supply is unknown. The Mojave basin is adjudicated and there is a ground water shortage. The ground water basis is "overdraft" and is being depleted. Maintaining adequate water resources over time will require recharging the basin with surface water. If the Town owned the water systems, the Town would be responsible for water supply and dealing with the problems faced in the basin. There would be the risk of insufficient water for its customers.

The Town Council would set the rates and charges under public ownership. Town management would be responsible for collecting them. High delinquencies in water

revenue collection could be a possible risk, especially given recent changes in the housing market. Town management would have to engage in collection activities, which can be troublesome and time consuming.

Under public ownership, the Town would be responsible for repayment of past customer advances. The general rate case for AVR indicated advances are estimated at \$31.1 million in 2010 and would need to be returned to customers. The Town would be responsible for their repayment, or would have to arrange with the current owner for the repayment when the water system is bought. Future accounting for the advances and customer record keeping could be burdensome and time consuming.

There is the risk of additional operation and maintenance expenses in the future due to federal and state regulations. Also, additional O&M costs could result due to large increases in electric and chemical costs over which the Town has no control.

The Town would be responsible for future water plant additions, improvements, and replacements. The cost and timing of these future capital projects are unknown. The Town would also be responsible for on-going investments in the water systems and need to establish a reserve fund for future replacements of utility assets. Town water staff would also need to respond to water emergencies and prepare and enforce security plans.

FINANCIAL FEASIBILITY

The financial feasibility of purchasing the water system relies on a balancing of the benefits of public ownership with the costs of owning, maintaining, and managing the water facilities and the assumptions of risks of public ownership.

The previous section discussed the risks of public ownership, which include the fact that ownership of the AVR water system would be a new venture for the Town, the service boundaries of the two water utilities differ from the Town's boundaries, acquisition costs are unknown, water supply is not secure, the AVR system currently has significant water losses, the Town has the responsibility of collecting water revenues, the Town would have to repay past advances, and increases in future operating expenses.

There are benefits of public ownership. One of the more important benefits is local control. The Town, and in a sense its residents and businesses, control the water system, not a distant corporation. The Town Council directs the operation and management of the water system. The Town Council decides on future capital improvements, system upgrades and expansion, and water programs.

Importantly, rate setting would be accomplished locally; the Town Council would set water rates and charges and not the California Public Utilities Commission in San Francisco. Currently, the private utility applies to the CPUC every three years for a general rate increase; under public ownership these general rate cases would not occur. One potential benefit to the Town and its residents of this change is that future rate increases, when needed, could be balanced with the policy priorities of the Town Council and needs of the customers, perhaps by making rates more "phased" over a number of years rather than through once-per-three-year large increases.

Another benefit of Town ownership would be the implementation of public policies adopted by the Town and its residents and businesses. Public policies regarding water conservation, discounts to low-income customers, different rates and charges for different classes of customers would be established and enforced by the Town not by the state or CPUC.

Financial benefits of public ownership include the ability of the Town to use lower interest tax-exempt financing, the Federal and state tax exemption, than corporate borrowing. Other lower costs of ownership regard the Town's not paying federal or state income taxes nor property taxes. Another cost avoided under public ownership is depreciation expense, which is a non-cash expense, and under ratemaking by most public entities that set rates on a "cash basis", annual depreciation expense is typically not included.

However, the feasibility evaluation shows that public ownership could cause negative financial impacts. In order to finance the acquisition of the water system, the Town would

issue debt which must be repaid through taxes or a rate increase. The magnitude of the tax or rate increase is dependent on the purchase price of the AVR.

Property taxes would have to increase by a range of \$87 to \$209 per \$100,000 of assessed value to complete the acquisition using General Obligation bonds. A new special tax could range from \$138 to \$329 per equivalent meter would be necessary if Mello-Roos bonds are used. If revenue-supported COPs were used, the Town may generate sufficient revenues under the current rates to repay the debt. Under the high purchase price scenario, a rate increase of approximately 44% would be necessary.

The benefits that could result from ownership must be therefore balanced with the increases in taxes or rates and the assumption of risks associated with ownership.

It would take approximately 21 years for the first year's net revenues of \$6 million to pay back the total RCNLD estimated acquisition costs of \$125.7 million. Using a discount rate of 5.25% (which roughly equals the Town's cost of borrowing) and assuming 25 years as the expected remaining life of the water utility assets, the present value of the net revenues would be \$82.7 million, about \$43 million less than the total estimated acquisition costs.

Assuming the lower estimated acquisition cost from the stock purchase price of \$52.2 million, it would take approximately 9 years to pay back the AVR acquisition. The discounted net revenues over 25 years would equal a net gain in revenue of \$30.5 million. The Town could use these funds to build up reserves and make capital replacements as needed.

WATER RIGHTS

The water systems in Apple Valley are located in the Mojave River Groundwater Basin, an adjudicated water basin. Based on conversations between BWA and Mojave Water Agency, BWA assumes the water rights held by the AVR water company would be transferred to the Town as part of the acquisition and the water rights leased or purchased by the private company from other parties could be purchased or leased by the Town under the same terms and conditions.

Water rights in the Mojave Basin, where the Town lies, were adjudicated by a "Final Judgment" entered in the case of *City of Barstow, et al. v. City of Adelanto, et al.* (Riverside County Superior Court Case No. 208568) (the "Mojave Adjudication") on January 10, 1996. Both the Town and AVR were parties to the adjudication and their current rights to extract water from the basin derive from the Final Judgment. Under the Final Judgment, and primarily based on historic use as well as availability, parties were assigned the right to extract for free a certain quantity of water out of the basin (Free Production Allocation). Any party pumping in excess of these free production rights would be required to pay replenishment costs to the Mojave Water Agency. The cost of replenishment water as well as the amount of free production rights is subject to annual review by the watermaster tasked by the Court to administer the adjudication and is subject to approval by the Mojave Water Agency and, ultimately, the Court in the Mojave Adjudication. Over the years, the free base production rights adjudicated to the parties to the adjudication have been reduced ("ramped down") ostensibly due to decrease recharge and availability of water in the basin.

An annual report is published by the watermaster and approved by the Court and indicates the ramp downs. The 2010-2011 report was approved by the Court on or about May 1, 2011.¹³ Among other things, the annual report indicated the ramp down amounts for the adjudicated parties (Free Production Allocation). Under the new ramp down figures, and over the years, AVR original 13,300 AFY (acre feet per year) BPAs (Base production Allocation) has been eventually reduced to 7,998 AFY of Free Production Allocation (FPA). The Town original allocation of 373 AFY BPAs has been reduced to 224 AFY FPAs. The Town is currently set to close escrow on the Apple Valley Country Club Property which would eventually give the Town access to the Country Club's original allocation of 709 AFY, which has been currently ramped down to 426 AFY.

¹³ see, <http://www.mojavewater.org/home/watermaster/documents/17AR0910.pdf>

FINDINGS AND CONCLUSION

BWA finds the acquisition of the water utility financially feasible under both the high and low purchase price if the voters approve a new property or special tax. If revenue-supported borrowing is used, an increase in water rates would make the acquisition feasible at the higher cost. While net revenues are estimated to be available under public ownership they may not be sufficient to repay any borrowings and rates would have to be increased to pay annual principal and interest and satisfy any debt service coverage requirements under the high purchase price. Under the lower purchase price, net revenues will likely be sufficient to meet the debt service coverage requirement.

Total operating costs could be less under public ownership than under private ownership. The Town would not pay property taxes or income taxes. In addition, payroll costs could be reduced and corporate overhead would be avoided. Typically, public enterprises operate and set rates on a cash basis and annual depreciation would not be accounted for as an operating cost included in the revenue requirement to be recovered through rates and charges. Most importantly, the Town would not earn a profit, while a private owner can earn a profit.

The potential possible net revenue from the water enterprise would be available to fund facility replacements, capital improvements, and reserves. Net revenues could also be used for debt service payments.

NEXT STEPS

Based upon this updated financial feasibility study, legal advice from the Town attorney, and advice from Town management, the Town Council would decide if acquisition of the water systems should proceed.

If the Town Council decides to continue with the water system acquisition, the following tasks would need to be completed.

- The residents, taxpayers, ratepayers, and water utility will want to comment on the acquisition. The Town Council would want to receive their input, comments, and opinions. Public workshops and meetings would be the appropriate venue to receive the public input.
- A consulting engineer would need to perform its “due-diligence” review of the water system and inspect the water facilities. The consulting engineer would compile an inventory of water facilities, including their location and ages. The engineer should prepare a report on the condition of the water facilities and indicate what type of capital improvements, repairs, replacements, upgrades, and expansions may be necessary.
- An accountant would need to conduct a financial review of the books and records of the water utility. This review would include billing records, accounts receivable, and customer advances. The Town would need to know what customers would need to be repaid for their past advances and when repayment would be expected.
- The Town should engage a utility appraiser to prepare a formal appraisal of the water system.
- Based upon the appraisal, the Town would be able to make an offer price to acquire the water facilities.
- The offer would more than likely be followed by negotiations with the current owner. If negotiations fail, the Town has the right of eminent domain and could condemn the water facilities. Condemnation would require a condemnation attorney and expert witnesses and could take several years.
- Two significant future actions that would be necessary include:
 - Assuming the Town would want to serve all water customers, not just those within the town boundaries, the Town would have to apply to the Local Agency Formation Commission (LAFCO) to adjust the Town’s boundaries for the purpose of water service to coincide with water utility service areas.

- Vote by electorate if General Obligation or Special Tax bonds are to be used.
(Formation of an assessment district would follow Proposition 218)

The Town Council will also need to decide on the financing method. The Town Council may want to place the water acquisition before the voters before pursuing the above tasks. A general obligation bond or special tax bond vote would indicate voter support for the acquisitions and would provide funding to pay for the tasks.

SELMA, CA

Can the city take over the water system from Cal Water?

By Doug Hoagland

dhoagland@selmaenterprise.com

Some Selma residents want the city to take over the water system from California Water Service, but city officials disagree on whether that's financially possible. A recent water rate increase has sparked the takeover talk. Buying out Cal Water could prove too expensive or impossible because of the sour economy, said City Attorney Neal Costanzo and City Manager D-B Heusser. Nevertheless, City Council Member Dennis Lujan remains convinced that it's possible. At the very least, talking about a takeover keeps pressure on Cal Water to roll back the recent rate increase, Lujan said.

Cal Water raised rates 29.4 percent for 2011 on Jan. 1. Increases of about 1.3 percent could follow in both 2012 and 2013. The California Public Utilities Commission, a state agency, granted those increases.

Lujan is pushing the company to roll back the 2011-13 increases -- which total about 32 percent -- to 15 or 16 percent.

Cal Water said last week it's prepared to skip the small rate increases approved for 2012 and 2013.

Lujan said that's not good enough. And some Selma citizens agree. "I'm asking the city council to take over the water system," Florence Varela said to applause at the April 18 council meeting.

Juan J. Mendoza also spoke at the meeting: "I agree with Dennis. Let's go for half of the [increase] or let's take it over."

The system is not for sale, said Tom Smegal, a Cal Water vice president: "We think we do an excellent job in Selma and we're happy to be here."

Without Cal Water agreeing to sell, Selma could only acquire the system through eminent domain. That's the legal process in which government seizes private property for its use, although it pays for the property.

The city would have to pay Cal Water "fair market value" for the system, according to officials. Smegal of Cal Water said that could amount to many millions of dollars.

Selma City Attorney Costanzo said: "There's nothing wrong with us attempting to take it over." However, a takeover would require the city to sell municipal bonds to raise the millions to pay Cal Water, Costanzo said.

And with California "essentially bankrupt," such municipal bonds would have "junk bond" status, Costanzo said. As a result, the bonds could carry a high interest rate, making it difficult for the city to handle the financing.

Some California cities have found it impossible to issue bonds because of the state's serious financial problems, according to City Manager Heusser.

Lujan disagrees. He said financing to buy the water system could be worked out because the city would get a utility with a good cash flow.

That would make the bonds attractive to investors and ensure a reasonable interest rate, Lujan said: "Utilities are a hot commodity."

So who's correct?

The truth is probably somewhere between what Costanzo/Heusser say and what Lujan says, according to Theodore Chapman, a director of Standard & Poor's ratings agency. He works in Dallas.

Investors might be interested in buying bonds secured by water users' payments to the city, Chapman said. Investors also might be influenced by how well they believe the city is managed, he added.

This isn't the first time that Selma has considered taking over the water system from Cal Water. In 2003 and 2004, the city council took steps to acquire the water system through eminent domain.

The city went so far to get an appraisal of the water system, which was about \$10.2 million according to Heusser.

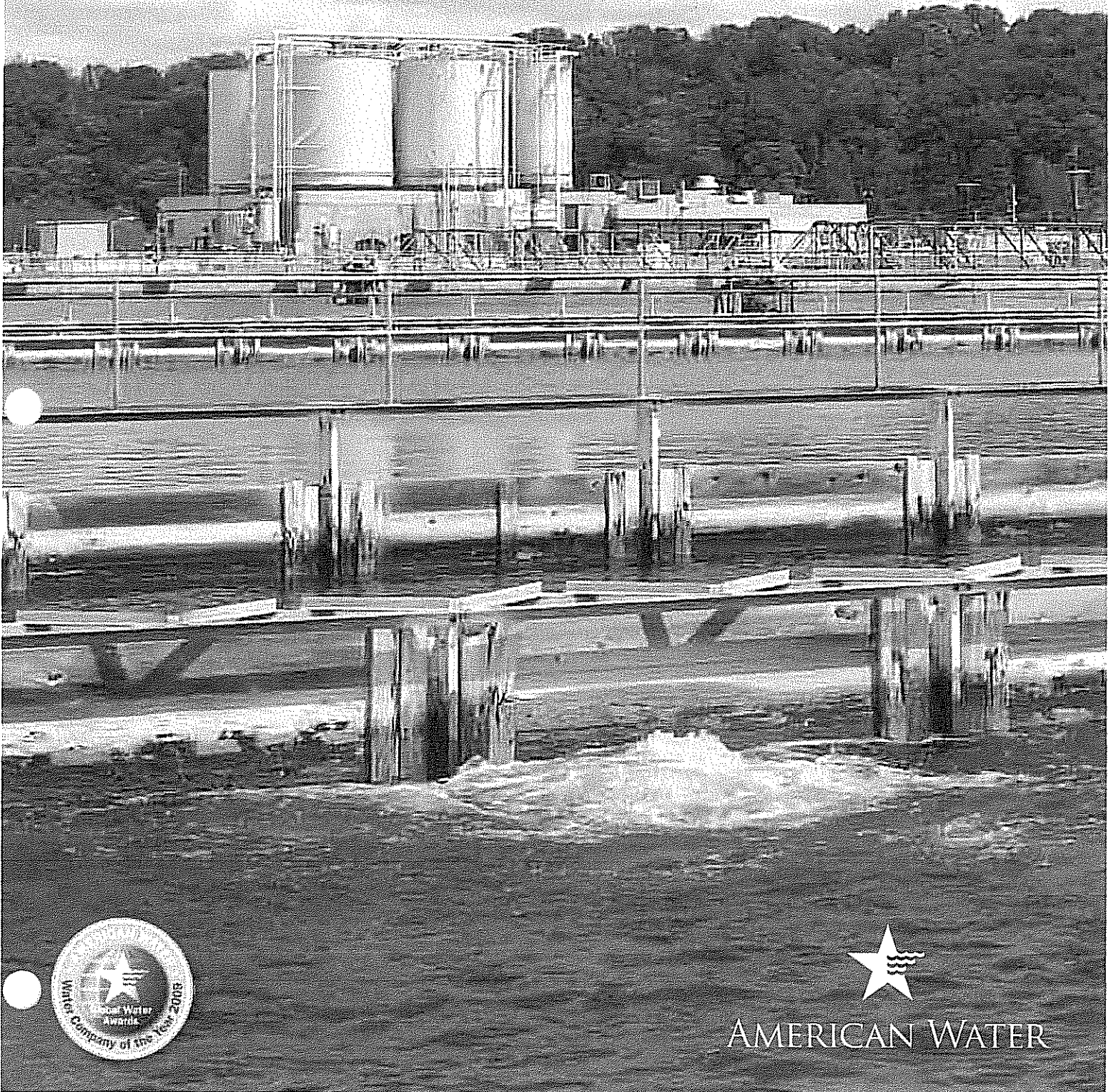
The council decided in October 2004 to drop the matter after about 200 people came to a council meeting and most of them supported Cal Water.

Lujan, who was on the council in 2004, supported dropping the matter at that time. He said conditions are different today, including higher water bills in the worst economy many people have known.

Cal Water has run the water system in Selma since 1962.

EMINENT DOMAIN

Be Aware of the Facts



AMERICAN WATER

EMINENT DOMAIN:

NOT IN THE PUBLIC INTEREST

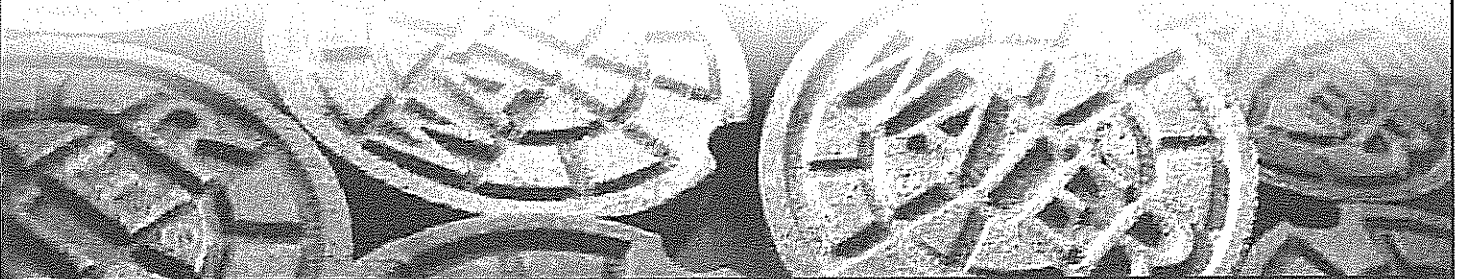
Advocates for using the government's power of eminent domain to takeover an investor-owned water utility often justify their idea as being in the public interest. Their public reasons are often to "gain local control", "reduce water rates," and even "return control of water to the public." These emotional messages are often used to justify the first steps on a very slippery slope. "Let's just look into buying the water company," "study it," and "evaluate having the community own the water company" are all terms used to justify spending valuable tax dollars. These are all emotional themes intended to gain public support, and they just don't hold up under scrutiny.

The facts can be found by researching publicly available information on eminent domain cases. Using eminent domain to condemn a private utility will take much longer than proponents state, and the process will be a significant distraction from the issues most important to the public. While the initial funding requests to "just look into it" will appear modest, the costs will escalate rapidly. A few thousand dollars for the first study will result in a request for further study, and added funding.

Before long, millions of valuable tax dollars will be spent, and the ultimate cost to the public will still not be known. The process will divide the community, creating an unfriendly image that will discourage businesses and individuals who are looking for a place to locate.

An eminent domain takeover of a water or wastewater utility is very different from an eminent domain acquisition of land for a road project. Valuation methods and legal factors involved in a utility condemnation are extremely complicated in contrast to establishing a valuation for a piece of land. The amount of time involved and the ultimate cost for properly valuing a utility are very substantial, as is the cost for legal representation.

Eminent domain advocates, as well as consultants and advisors to governments, are likely to substantially underestimate the cost to acquire a utility using eminent domain. The cases illustrated below underscore the extreme disparity between what the public was told would be the cost, and what the actual cost was. It is important to also note that the costs shown do not include legal and expert consultant expenses.



LESSONS LEARNED: MONTARA, CA

In 2003 California American Water was required to sell, under threat of eminent domain, the water system serving Montara, CA. On January 2, 2005, Montara resident Don Bacon, an initial supporter of eminent domain, wrote in the Santa Cruz Sentinel, "the takeover resulted in the property owners here spending millions to have the same water system and service we always had. For the next generation or two, property owners will pay a bond tax that in most cases far exceeds what they could ever pay in water bills. It is equivalent to a 24 percent increase in a property's assessed (taxable) value for the rest of many homeowners' lives. Customers pay the same rates now as they did to Cal-Am, yet taxes have increased dramatically. Groaning under the debt, service suffers: The District had to cut capital improvement funds and reserves to balance its budget, while rates are expected to go up in the near future."

FELTON, CA - The true cost of "local control"

The case of Felton, CA offers an instructive look at what happens to a community when a small, passionate group of individuals are so consumed by emotional arguments that facts no longer matter. Felton is located in Santa Cruz County, approximately eight miles north of the City of Santa Cruz. The investor-owned Felton Water Company began providing water service in the Felton area in 1889. Citizens Utilities acquired the Felton water system in 1962, and in January, 2002 California American Water acquired the water system from Citizens. At the end of 2007 the water system served about 1,330 customer connections.

Shortly following the California American Water acquisition of the water system a small group of individuals began a campaign to takeover the utility in order to obtain "local control" and to reduce rates. The publicly stated cost for the takeover was about \$2 million. Even though American Water stated the system was not for sale, proponents pressed on, convincing the local water district to spend \$75,000 to "study the feasibility of acquiring the water system." Eventually, more funds were expended for further studies, and a referendum vote approved the sale of \$11 million in bonds to fund the acquisition and other expenses. In February, 2007 an eminent domain petition was filed by the San Lorenzo Valley Water District, and a jury trial to establish value was scheduled for June 2, 2008.

On May 27, 2008, California American Water and the District agreed to a stipulated judgment in favor of the company calling for the District to pay \$13.4 million for the operating assets of the water system. The sale price amounts to 5.7 times the cost initially communicated to the public. But there's more.

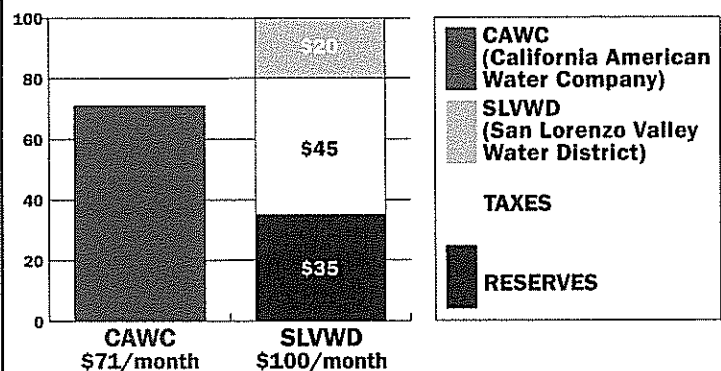
Local control? No. One of the first decisions made by the Water District following the change of ownership was to close the local Felton customer service office. The Water District refused to hire any of the local employees.

Lower water rates? Yes, BUT property taxes for the average Felton homeowner increased about 20% just to fund the acquisition of the water system. When all costs are taken into account the cost to the average Felton customer increased by about 41% when the ownership change occurred.

Local control of water rates? Yes, that did happen. In fact, barely four months after taking ownership, the water district announced plans to raise water rates by 30%.

Certainly, each Felton customer will have a personal view about whether they were provided proper and timely information at each decision point in this six-year saga, or if they feel misled. What is clear is that proponents of the eminent domain takeover initially told the public the water system could be purchased for about \$2 million, and it actually cost \$13.4 million. The mantra of "local control" turned out to be much different than the public was led to understand. Finally, the fact that an adjacent, government-owned water system has lower rates than an investor-owned water system does not mean the investor-owned system has high rates. In the Felton example, it turned out the SLVWD was depleting its reserves in an attempt to keep its rates unrealistically low.

FELTON RATE COMPARISON
The Real Story



The chart above reflects costs to the consumer at the time of close, and before additional increases were imposed.

Learn the facts about eminent domain.

Avoid the hard lessons others have learned.

What the proponents said...

"We can buy our water system, pay San Lorenzo Valley district rates and still be better off."

-Felton FLOW, March 16, 2005 in Santa Cruz Sentinel

"Even in the early years, the difference should only be about \$10 a month."

-Felton FLOW doorhanger, July, 2004

"Overall, I would say the water district considers this settlement a victory for the community of Felton."

-J. Mueller, San Lorenzo Valley Water District General Manager, May 30, 2008, Santa Cruz Sentinel

"We are absolutely thrilled. It was a huge victory for the community."

-Chairman of Felton FLOW, June 3, 2008, Lexington, KY Herald-Leader

What actually happened...

- **Customer costs increased three times the amount the public was told when ownership changed.**
- **The District paid \$13.4 million for the operating assets of the water system. The sale price amounts to 5.7 times the cost initially communicated to the public.**
- **Victory? Huge victory? Unfortunately, no one told the residents that their water rates would increase 30%, and that taxes would increase 20% to pay for the acquisition.**

What Felton customers are saying now...

"Felton residents were misled! FLOW lied. SLVWD lied. Mark Stone lied."

-Petition drive flyer circulated to oppose water district rate increase, about February, 2009

"Felton FLOW, SLVWD, and Santa Cruz County officials Jeff Almquist and Mark Stone all assured us that rates would increase only 2.5% each year if we agreed to the takeover."

-Felton resident, March 6, 2009 Santa Cruz Sentinel

"It's (the rate increase) really to meet our projected future operating costs. We found we were dipping into reserves to make ends meet"

-J. Mueller, SLVWD General Manager, January 16, 2009

"Felton ratepayers/homeowners are now saddled with an exorbitant, unaffordable and unsustainable debt. Hundreds of unsuspecting Felton voters trusted FLOW and SLVWD's claims of rate relief and local control. It didn't take long for those claims to be proven false."

-Felton customer, January 19, 2009, Press Banner



AMERICAN WATER

WE CARE ABOUT WATER. IT'S WHAT WE DO.



Printed on recycled paper; each ton of recycled paper saves 7,000 gallons of water.

December 7, 2006



Dear Customer:

Sonoma County is looking into creating a taxpayer-funded Community Services District for the Mark West Area. Community Services Districts have some, but not all, of the duties and authority of a regular town or city. A Community Service District in the Mark West area could choose to fund and manage a number of services to residents, including parks and recreation, street lighting, trash services, and increased policing. Unlike a regular town or city, a Mark West Community Services District would not be responsible for zoning or land use decisions.

Unfortunately, some proponents of this new district have suggested that if the Community Services District is created, its first order of business should be to purchase and operate the local water system. The Sonoma County Water Agency recently hired the Berkeley-based consulting firm Economic and Planning Systems (EPS) to assess the feasibility of a Community Services District to acquire, operate and manage our Larkfield-Wikiup water system. California American Water has consistently stated that its system is not for sale, so the company does not endorse all the study's findings or recommendations. In particular, the total estimated acquisition cost by EPS of \$9,200 per customer is not based on an appraisal of the system. The true value of the system will drive the total acquisition cost even higher and will only be determined by a jury after a contested eminent domain takeover action.

According to the 63-page draft report's introduction, it was commissioned to help the Sonoma County Water Agency understand "...potential impacts on rates and other costs to residents and property owners related to acquisition and operation" of our water system (*Source: EPS Introduction, page 1*).

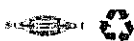
As mentioned in the study, "Eminent domain may be necessary to acquire Cal-Am's water system in the Mark West area..." (*Source: EPS Summary of Findings, page 2*). We do not wish to sell our water system, but it appears some in the community would like to take it from us – against our will – through the use of eminent domain. We believe that there are better solutions, like a negotiated franchise agreement with the proposed Community Services District that would advance the mutual goal of providing the best possible service at the lowest price.

Economic and Planning Systems points out that our system is well maintained and run: "The Larkfield water system and associated facilities appear to be in good condition and in compliance with the California Department of Health Services requirements" (*Source: EPS Summary of Findings, page 3*). This demonstrates that California American Water is responsive to the local concerns and interests.

California American Water

640 Larkfield Center
Santa Rosa, CA 95403

T (707) 542-8329
E larkfield@amwater.com
I www.calamwater.com



(over, please)



We have an efficient local workforce. Our local employees and our company are proud to be part of the community and we plan to remain your trusted water provider for many years to come. That is why we have worked with the community to establish the Mark West/California American Water Community Advisory Committee, landscaped our community garden on Londonberry Drive with native and drought tolerant plants, and the reason we continue our involvement with local schools, non profits and community organizations.

As a courtesy to our customers – at no expense to you – we have reprinted the Summary of Findings from the Sonoma County Water Agency's Preliminary Feasibility Study conducted by the firm Economic and Planning Systems. Some of the key points are:

- "The total acquisition cost is estimated to be approximately \$9,200 per residential customer, or \$58 per month" (*Source: EPS Summary of Findings, page 2*).
- Eminent domain takeover could "increase existing annual homeowner costs by 60 percent or more..." (*Source: EPS Summary of Findings, page 2*).
- "...the total cost could be in excess of \$26 million" (*Source: EPS Summary of Findings, page 2*).
- "A primary drawback would be the CSD's initial inexperience in operating and managing a water system" (*Source: EPS Summary of Findings, page 2*).
- Because our company would no longer pay local taxes, "Public ownership of the system will reduce property tax by an estimated \$80,000 annually. These taxes benefit the County, as well as other agencies serving the area" (*Source: EPS Summary of Findings, page 3*). Other agencies that would lose tax funding include schools and public services.
- "The eminent domain process can be lengthy and costly, often requiring significant legal proceedings....The result may be costly, with no guarantee of success if the courts rule that there is not sufficient proof of "public benefit" (*Source: EPS Draft Report, pages 18-19*).

This matter will be discussed at a public hearing on December 14 at 7:00 PM at the Sonoma County Water Agency offices, 404 Aviation Boulevard, Santa Rosa, CA 95403. We anticipate the entire report will be published at the Water Agency's Web site: www.scwa.ca.gov.

Because this matter could dramatically increase your cost of living and also put your water system in the hands of persons with "inexperience in operating and managing a water system" (*Source: EPS Summary of Findings, page 2*), you may want to attend this meeting or monitor this situation.

Sincerely,



Evan Jacobs
Community Relations Manager

P.S. Please return the enclosed postage-paid postcard to let us know how you feel about this proposal to take over our water system through eminent domain.



ABOUT US WATER CONCERNS WATER SOLUTIONS TAKE ACTION BLOG FEATURE ARTICLES RESOURCES PHOTOS LINKS CONTACT

ENGLISH | ESPAÑOL

Case studies

- [Case 1: The Push for a UN Covenant on the Right to Water](#)
- [Case 2: Legal Efforts to Guarantee the Right to Water in Latin America](#)
- [Case 3: The Constitutional Right to Water in South Africa](#)
- [Case 4: Free Water in South Africa](#)
- [Case 5: "Social Control" and Public-Collective Partnerships with Community-Run Systems in Cochabamba, Bolivia](#)

[Browse all case studies](#)

Water Solutions

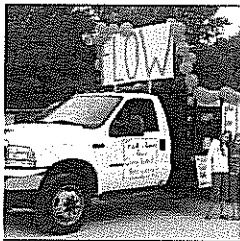
Case 19: The Fight for Public Water in Felton, California

Introduction

In 2001, Cal-Am purchased Felton's water system, which had been privately owned since the late 1800s, as part of its larger acquisition of Citizen's Utilities. Shortly after that, RWE purchased American Water.

The trouble started in November 2002 when Cal-Am ignited anger in the Felton community with a 74 percent rate hike. In response, the Friends of Locally Owned Water (FLOW) was born. FLOW fought to reduce the rate hike, urged the county government to create a public agency to control the water system and opposed the company's plan to merge two water districts.

On Friday, May 30, 2008,¹ the people of Felton, California prevailed in wresting control of their water from a corporate giant. For nearly six years, many of the 3,000 residents of the Felton Water District had been organizing to buy back the community's water system from California American Water (Cal-Am). Cal-Am is a subsidiary of American Water, which had been owned by the German multinational energy and water titan, RWE.



Less than one week before an eminent trial against Cal-Am was to take place to determine the value of Felton's water system, the San Lorenzo Valley (SLV) Water District (where Felton is located) announced that it would pay Cal-Am \$10.5 million in cash to buy back the system.² Cal-Am agreed to do the deal to avoid a jury trial, said Jim Mosher, who heads up the legal committee for Felton Friends of Locally Owned Water (FLOW).³

"This is a great victory for the citizens of Felton and should inspire other communities to challenge private water utilities that are extorting huge, unjustified rate increases and failing to protect sensitive watershed properties," Mosher said. "The SLV Water District has done an excellent job representing us and we look forward to having them manage the Felton water system."⁴

The agreement stated that Cal-Am would donate 250 acres of forested watershed land in return for a tax break. Mosher questioned, however, whether the land transfer is a donation, since the appraisal shows it to be an integral part of the deal and the price.⁵

The push for public water in Felton won its first success in July 2005 when FLOW spearheaded passage of "Measure W," despite Cal-Am's deep-pocketed opposition. The measure authorized an \$11 million bond to buy the water system. The bond would be financed through higher taxes.

The SLV Water District offered Cal-Am \$7.6 million for Felton's water system, but Cal-Am refused. Its leadership stated that the system was not for sale at any price and expressed its determination to oppose all public acquisition efforts. Apparently, Cal-Am wished to stem a domino effect of citizens taking control of their water resources.⁶ Felton's petition to the California Public Utilities Commission to approve the proposed public buyout failed after the commission succumbed to heavy Cal-Am lobbying.⁷

Four months later, RWE announced it would sell its stake in American Water, including the Cal-Am division. The reason given was to focus on European energy investments. However, leaked minutes from an RWE board meeting reveal that "the German company was taken aback at the difficulties of turning a profit in the American water market, and that its initial estimates of efficiencies and rate increases were overly optimistic."⁸ It also cited "considerable political resistance to privatization of the water sector" as a reason to exit the U.S. water market.

When RWE offered up Cal-Am in an April 2008 initial public stock offering, the results were disappointing. RWE planned to offer shares for \$24-\$26, but at the last minute dropped the offering price to \$22-\$23. That still wasn't enough and on opening day shares sold at \$21.50 and the company only sold 36 percent of its shares. As stock analyst Bill Simpson summed it up: "... this IPO is nothing more than an exit strategy for parent company RWE."⁹

Meanwhile, Felton residents did not back down. Its purchase offer brushed off, the community used eminent domain proceedings to force a buyout. Cal-Am responded by doing all it could to make the system seem more expensive. Its own appraisal valued the system at \$25 million, far more than Felton's \$7.6 million offer. This appraisal was based in large part on Cal-Am's assertion that the 250 acres of watershed land should be valued based on future revenues the acreage would generate through timber sales and commercial development, an appraisal method that the community hotly disputed.¹⁰

Eminent domain proceedings in California have two parts – the "right to take" hearing before a judge to determine whether the purchase serves the public interest, and a "valuation" trial in which a jury decides how much the property is worth. In both cases, Cal-Am's tactics caused delays and increased expenses for the SLV Water District. In the end, the company conceded the public's right to take the water system and settled the acquisition price without a trial.¹¹

"We fought off every one of Cal-Am's tactics to derail the process," Mosher said. "But in the end, our position was completely vindicated."

In their successful six-year crusade for public water, the people of Felton have helped lead the way for numerous other U.S. communities fighting corporate control of water.

Questions

- What lessons does the Felton case offer to other communities trying to return their water to public ownership and management?
- How might a federal trust fund help struggling municipalities keep and improve their drinking water and waste water systems? How could such a fund help communities buy back systems from private operators?
- What additional laws might help communities like Felton? How can we pass such legislation, both in the U.S. and around the world?

Notes and Links

Notes

1. "Felton prevails in six-year fight to acquire water system from California-American Water and German multinational corporation RWE." Felton FLOW news release, May 30, 2008.
2. Ibid.
3. Mosher, Jim. Personal interview. Legal counsel for Felton FLOW, June 2, 2008.
4. Ibid.
5. Ibid.
6. Ibid.
7. Ibid.
8. Magyar, Chris J. "Crooked Pipes: FLOW prepares for the final battle against RWE for control of Felton's water utility." [Good Times](#), March 19, 2008.
9. "Wall Street unimpressed by IPO." [Felton FLOW news update](#), May 5, 2008.
10. Mosher, Jim. Personal interview. Legal counsel for Felton FLOW, June 2, 2008.
11. Ibid.

Links

- Food & Water Watch's [water page](#)
- [Felton FLOW](#)

»

[Login](#) to post comments

Fishing with bow and arrow allowed at Lake Casitas

By From staff reports

Monday, October 3, 2011

Get your bow and arrow ready and head to Lake Casitas to go fishing?

It may seem like an odd mix of sports, but when 30-pound invasive carp are swimming near the surface, it can work.

"Bowfishing combines the thrill of hunting and fishing into one sport," said Carol Belser, recreation manager at the lake, in a news release. "It is an exciting and fun sport that also helps to address the problem of an exotic species in our lake."

As many as 50 carp have been seen in one cove in the lake, making for relatively easy pickings as they swim near the surface.

Catching carp by traditional means is hard, and too many can damage a native fish population. Lake managers hope a significant number of the fish are killed so the populations will greatly decline. A valid fishing permit is required, and a free permit, which is available at <http://www.casitaswater.org>, must be completed. The season will last until May 15.



Opinion

letters@ojaivalleynews.com

Ojai Valley News • Wednesday, Oct. 5, 2011 A5

Golden State's false claims self-serving

Richard H. Hajas
Guest editorial

Robert Sprowls, president and CEO of American States Water Company, the parent company of Golden State Water Company, mailed letters to the residents of Ojai and the letter appeared as a guest editorial in the Ojai Valley News. Mr. Sprowls made the following claims regarding Ojai F.L.O.W. and the proposal by the residents of Ojai to replace Golden State with Casitas Municipal Water District:

- Ojai F.L.O.W. has an agenda.
- Ojai F.L.O.W. undervalued the Ojai system.
- Ojai's financing analysis is flawed.

Golden State's claims are inaccurate and unsubstantiated. The following are the facts about Ojai F.L.O.W.:

1. The Ojai residents working with Ojai F.L.O.W. are not affiliated with any outside group. From a political perspective the founding members of Ojai F.L.O.W. are about as diverse a group as you will find in Ojai. The origin of the name "flow" is an informal group of Ojai residents in 2005 who joined together to find a solution to Golden State. The group of residents who developed the most recent proposal simply continued with the same name.

Golden State is correct in stating Ojai F.L.O.W. has an agenda. Our agenda is to stabilize water rates, and place the control of our water and water rates in the hands of the local community. Our desire is to be able to enjoy the same benefits from our local water resources as all of our neighbors.

2. Golden State has made a broad and unsubstantiated statement that a "historical review" reveals that the final costs of water systems are "100 to 500 percent more expensive than initial suggestions." Suggestions made by whom, historical review of what? Golden State conveniently omitted the source of the statement and source of any detailed data behind it. Ojai F.L.O.W. has clearly stated the basis of its estimated value of the Golden State system and cited the sources of data used. The proposal estimates the value of Golden State between \$16.0 million and \$21.5 million. The value may vary based on the actual condition of the water system. The value may be slightly higher depending on the value of several small real estate parcels owned by Golden State. There are very few other variables. Golden State does hold water rights in some of its other service areas, but not in Ojai. It has no entitlement

to the water and no adjudicated allocation of water (American States Water 2010 Annual Report). Ojai F.L.O.W.'S proposal includes significant flexibility in the use of the proceeds from the proposed \$33.0 million bond sale to fund the purchase.

Golden State further claims that Felton, a Santa Cruz County community that successfully acquired its water system from Cal-American Water Company in 2008, estimated the value at \$2 million and it actually cost \$13.4. Again, what is the source of this statement? The fact is the statement is false. The community of Felton voted in support of Measure "W" in July of 2005, which authorized \$11.0 million in bonds to acquire the water system. The final sale was the result of a settlement agreement (between San Lorenzo Water District and Cal-American Water Company, May 27, 2008) in which San Lorenzo Water District agreed to pay \$10.5 million. The settlement included the assumption of a \$2.9-million loan on an existing water treatment plant. The settlement also deeded non-operating assets, including 250 acres of Santa Cruz County property, appraised at \$2.24 million to the San Lorenzo Water District.

3. Golden State is correct in stating that Ojai F.L.O.W.'s financing method was not prepared by an expert in municipal financing. However, as with all of the conclusions developed in Ojai's proposal it is based on a very conservative analysis. The proposal estimates the annual debt service will be approximately \$2.2 million on \$33.0 million in bonds. The actual cost will depend on interest rates at the time of sale, the creditworthiness of the issuer and a variety of other variables. The debt service will be paid with the difference between Golden State and Casitas water rates.

Currently, Casitas' rates are \$3.15 million per year lower than Golden State and will be \$4.40 million per year lower, if Golden State's most recent proposed rate increase is approved. It does not require a licensed professional financial analyst to figure out that Golden State's extraordinarily high rates make funding the purchase of the water system very affordable to the residents of Ojai.

What is glaringly missing from Golden State's response to Ojai's proposal is any acknowledgement that there is a problem. The problem is Golden State's rates are outrageously high

and they fully intend to raise them higher. They have not denied that the average water user in Ojai, now paying \$179 every two months for water, will be paying \$438 in just 15 years. Ojai residents would welcome an open dialogue with Golden State regarding how they plan to trim costs, cut overhead and reduce water rates in Ojai. We do not, however, welcome self-serving false claims and the distortion of facts aimed solely to preserve the status quo and Golden State's financial grip on our community.

Ojai F.L.O.W. member Richard H. Hajas authored the feasibility analysis.

GSWC needs to do homework

SHOLOM IOSHUA, OJAI

Things just get curiouser and curiouser with the behavior of Golden State Water Company.

On Saturday, Sept. 24, 2011 most all of us living in Ojai received a letter from Golden State saying, in effect, that Ojai F.L.O.W. is part of a national movement to make hostile takeovers of selected water service providers.

I think Golden State needs to do its homework. Ojai F.L.O.W. is an independent group of local citizens who, like most all of us, realize that GS is charging Ojais a fortune for water, and plans to charge more and more.

The funny thing is that it's Golden State who is affiliated with a big mother ship that has control of water far and wide. That is Golden State's parent company, American States Water Company.

www.ojaivalleynews.com

How about Golden State's self-description as a tax-paying business. Wait a minute with that. They're asking the Public Utilities Commission to raise our rates again to pay their tax bill.

And what's with the meeting they hosted on (his past Tuesday, Sept. 27, 2011)? Did we really need it? It's not required for a community with our small population. We're waiting for the rescheduled meeting with Casitas Municipal Water District. All involved are waiting, waiting for Golden State.

The kicker with Tuesday's meeting is that Golden State gets to charge us for their costs.

Is it any wonder we need community-owned water service?

Casitas opens lake to carp bowfishing

Logan Hall

logan@ojaivalleynews.com

Lake Casitas Recreational Area officials have given bow hunters a chance to join anglers in sport fishing. On Oct. 1, the lake began permitting bowfishing strictly for carp — a species of fish that, according to a press release from Casitas, "can have a devastating effect on the spawning sites of other fish."

Bowfishing is exactly what it sounds like: the hunter draws a barbed arrow back using a bow and releases the projectile at a fish. Carp can be found in abun-



Photo courtesy of CMWD Casitas' Carol Belser demonstrates bowfishing technique.

dance near the surface of the water during much of the year, making hunters' targets easy to spot.

Lake Casitas is not the first recreational lake in California to allow bowfishing. Big Bear Lake and Lake Cachuma have introduced similar programs that emphasize population control of the fish. Steve Heule, general manager of Big Bear Municipal Water District, says the program has been successful for their fishery. "We've had our annual carp roundup for bow hunters for the past several years," said Heule. "It always seems to end up removing 8,000 to 10,000 pounds of carp. Our fishery has improved dramatically since we started this."

One question that seems a touchy subject for officials is whether or not the sport is considered humane. When entering a search for bowfishing on YouTube, several videos depict — in great detail — fish being struck by arrows, dragged onto a boat using line attached to the arrow, and then subsequently being smashed in the head repeatedly with what appears to be a baton in order to kill the, usually thrashing, fish.

When asked if bowfishing was a humane method of carp

See Casitas, Page A3

Casitas:

Continued from Page A1

population control, Casitas park services manager Carol Belser said, "I'm not going to answer that," before adding that the California Department of Fish and Game does permit bowfishing in the state.

"It can get pretty gory," said Heule when asked the same question. "It all depends on an individual's sensibilities. PETA (People for the Ethical Treatment of Animals) certainly wouldn't approve, though. I think the type of community has a lot to do with how people react to it, and it's not an issue up here."

Belser agrees with Heule that the sport should benefit the lake's ecosystem. "Carp are invasive," she said. "They don't have any real predators. In the long run, this will really help our fishery."

At Casitas, the carp is second in size only to large catfish that dwell in the lake's depths. Ojai's own archery expert, bowfishing advocate and archery store owner, Bob Pergson, confirms that Casitas has big carp. "They got some 30- to 40-pounders in there," Pergson said. "People need special equipment to do this, which I carry some of in my shop. I think it's fantastic though. They (Casitas) should have done this 20 years ago."

Dealing with sharp projectiles fired from a moving platform in a public area presents obvious safety concerns, which are addressed by Casitas staff through regulations put in place for

bowfishermen. "They can only bowfish along shorelines that aren't accessible to the public," said Belser. "They also have to pick up a permit on a daily basis. You can't just bring in bowfishing gear without a permit."

Heule says that Big Bear's bowfishing programs have gone smoothly so far. "There has never been an accident that we're aware of," he said.

Casitas prohibits bowfishermen from disposing of their catch at the lake, requiring them to take the fish off the property once they have killed it. According to the Casitas press release, the carp that are caught can be used as an effective fertilizer. "Our fish grinders can't accommodate carp because they have huge scales," said Belser. "Until we get a system in place, people have to take the carp out of the Recreation Area."

Pergson believes that the Casitas program might not take off as quickly as some might hope. "The problem," he said with a laugh, "is that nobody likes carp."

Anyone wanting to participate in bowfishing at Casitas needs a valid fishing license. For information call the Lake Casitas Recreation Area at 649-2233.

Comment on this report at ojaivalleynews.com



service." It's easy to put words on paper, but I would rather see action behind the words. From the numerous leaks under our streets and the absence of maintenance, it would appear that the system is not of the quality that you describe. Ojai residents have complained about water leaks and the quality of water for years. You also went on to say that Golden State will continue to provide "the best possible water service." I'm wondering when that service began because I haven't seen it yet in the years I have been a Golden State customer.

It was curious to me that you used the words "hostile takeover" when referring to Ojai F.L.O.W.'s efforts to use eminent domain to take control of our water system. I looked up the definition of "hostile," and the dictionary defines it as "unfriendly or antagonistic." I don't think speaking up for what is ethically right is necessarily "unfriendly" unless, of course, you don't agree with that point of view. I personally know and work closely with several of the people who were instrumental in organizing Ojai F.L.O.W. These people have worked tirelessly putting in hours of research to create the best possible and most reasonable plan, which was to make a case for eminent domain.

I was at the City Council meeting on Sept. 13, when you made a public comment delivering a message similar to the one in your form letter — three minutes of economic intimidation and threats. Your allegations against

Ojai F.L.O.W. insinuate there is something "shady" going on. Your points seem like attempts to discredit Ojai F.L.O.W. in whatever way you can and instill fear in the current Golden State Water customers. The people involved with Ojai F.L.O.W. have a great amount of integrity. They have planned for the most conservative scenario with the information they acquired through water professionals, attorneys, and other specialists. I would trust the statements and work of these people who really care about our community before I would ever trust Golden State

Water. Your "honest dialogue" with customers translates to holding local hearings in which your Ojai customers can speak out against rate increases, but no one listens — especially Golden State Water.

We live in a semi-arid climate where drought cycles occur. As a valley, we need to focus on water conservation. To my knowledge as a longtime Golden State Water customer, Golden State has never focused on water conservation in any significant way. The gadgets you hand out at Ojai Day and other community events (rain gauges made in China) don't last, ending up in the landfill translating to more pollution. Your rate schedule does not encourage conservation. I'm going to pay for that meter no matter how little water I use, and the meter is by far the larger portion of my bill — 75 percent. How is that serving Ojai water conservation efforts? Let's be honest here, and call it for what it is. Golden

State Water's primary obligation is to its stockholders — not their customers in Ojai. I'm sure your stockholders have enjoyed numerous steady increases in dividends over the years at our expense and would be delighted to continue that trend. If the Ojai F.L.O.W. process costs more than anticipated, I would choose to pay higher costs for my water to fund what is ethically right — public ownership and control of our water system. Even with those higher costs, my water bills would be lower than what I am currently paying Golden State Water now.

Marleen Luckman has been an Ojai resident since 1972.

GSWC obligated to shareholders

MARLEEN LUCKMAN, OJAI

This is a copy of a letter I sent to:

Robert J. Sprowls
President and CEO
Golden State Water
Company

Dear Mr. Sprowls,

I received your corporate form letter dated Sept. 14, 2011, stating Golden State Water Company's perspective on the efforts by Ojai F.L.O.W., and I also read the same in your guest editorial in the Ojai Valley News today (Sept. 28). I was somewhat puzzled by some of your statements.

For instance, you state: "We take this responsibility seriously and ... work diligently to ensure Ojai residents and businesses have reliable, high quality water



thumbs up

- A reader sends a thumbs-up and blessings to the incredibly patient librarians at the Ojai Library, who put up with the rude, demanding behavior of computer users every day. "You are amazing!"
- Help of Ojai gives a thumbs-up to Rotary Club of Ojai-West for hosting another educational and fun motorboat ride on Lake Casitas. "Thank you, Capt. Reggie and docent Ed Kutchma for a refreshing morning on the lake!"
- A reader sends a thumbs-up to Larry Hagman and family and the Ojai World Music Festival folks for a wonderful Friday night concert in Heaven. "Thank you!"
- A reader sends another huge thumbs-up to Ojai Valley Electronics for saving her very old electric curlers again. "All of the people who work there are wonderful, but this time it was Gordon who came to my rescue. Thank you for restoring my curly locks."

Submit online at thumbs@ojaivalleynews.com

Your name and a telephone number must be included for consideration, though they will not be published.

**CASITAS MUNICIPAL WATER DISTRICT
TREASURER'S MONTHLY REPORT OF INVESTMENTS
10/06/11**

Type of Invest	Institution	CUSIP	Date of Maturity	Amount of Deposit	Current Mkt Value	Rate of Interest	Date of Deposit	% of Portfolio	Days to Maturity	Weighed Average Days to Maturity
*TB	Federal Home Loan Bank	3133XSP930	12/13/13	\$743,750	\$740,222	3.125%	07/01/10	5.87%	787	46
*TB	Federal Home Loan Bank	3133XWNB10	06/12/15	\$729,603	\$750,351	2.875%	07/01/10	5.95%	1326	79
*TB	Federal Home Loan Bank	3133XWW470	03/09/12	\$707,315	\$702,919	1.125%	06/30/10	5.58%	153	9
*TB	Federal Home Loan Bank	3134A4VG60	11/17/15	\$801,683	\$804,811	4.750%	07/19/10	6.38%	1481	95
*TB	Federal National MTG Association	3136FR3N10	09/20/16	\$723,188	\$697,662	2.125%	09/20/11	5.53%	1784	99
*TB	Federal Home Loan MTG Corp	3137EABS70	09/27/13	\$766,605	\$751,142	4.125%	07/01/10	5.96%	711	42
*TB	Federal Home Loan MTG Corp	3137EACD90	07/28/14	\$739,907	\$746,382	3.000%	07/01/10	5.92%	1012	60
*TB	Federal Home Loan MTG Corp	3137EACE70	09/21/12	\$723,646	\$712,446	2.125%	06/30/10	5.65%	345	19
*TB	Federal Home Loan MTG Corp	3137EACF40	12/15/11	\$706,398	\$701,323	1.125%	06/30/10	5.56%	69	4
*TB	Federal Natl MTG Assn	31398AYY20	09/16/14	\$739,123	\$748,559	3.000%	07/01/10	5.94%	1060	63
*TB	US Treasury Inflation Index NTS	912828JE10	07/15/18	\$1,055,030	\$1,165,054	1.375%	07/06/10	9.24%	2439	225
*TB	US Treasury Notes	912828JW10	12/31/13	\$709,352	\$718,375	1.500%	04/01/10	5.70%	805	46
*TB	US Treasury Notes	912828LZ10	11/30/14	\$718,129	\$736,092	2.125%	07/01/10	5.84%	1134	66
*TB	US Treasury Notes	912828MB30	12/15/12	\$709,707	\$707,630	1.125%	06/30/10	5.61%	429	24
*TB	US Treasury Inflation Index NTS	912828MF40	01/15/20	\$1,041,021	\$1,168,413	1.375%	07/01/10	9.27%	2979	276
*TB	US Treasury Notes	912828ML10	12/31/11	\$707,191	\$701,589	1.000%	06/30/10	5.56%	85	5
	Accrued Interest			\$58,062	\$54,776					
	Total in Gov't Sec. (11-00-1055-00&1065)			\$12,379,710	\$12,607,747			85.45%		
*CD	CD -			\$0	\$0	0.000%		0.00%		
	Total Certificates of Deposit: (11.13506)			\$0	\$0			0.00%		
**	LAIF as of: (11-00-1050-00)		N/A	\$441	\$441	0.40%	Estimated	0.00%		
***	COVI as of: (11-00-1060-00)		N/A	\$2,146,272	\$2,146,272	0.80%	Estimated	14.55%		
	TOTAL FUNDS INVESTED			\$14,526,423	\$14,754,460			100.00%		
	Total Funds Invested last report			\$14,532,423	\$14,811,128					
	Total Funds Invested 1 Yr. Ago			\$16,180,787	\$16,315,017					
****	CASH IN BANK (11-00-1000-00) EST			\$2,690,678	\$2,690,678					
	CASH IN Western Asset Money Marke			\$83	\$83	0.010%				
	CASH IN PIMMA Money Marke			\$501,171	\$501,171					
	TOTAL CASH & INVESTMENTS			\$17,718,355	\$17,946,392					
	TOTAL CASH & INVESTMENTS 1 YR AGO			\$16,417,689	\$16,551,919					

- *CD CD - Certificate of Deposit
- *TB TB - Federal Treasury Bonds or Bills
- ** Local Agency Investment Fund
- *** County of Ventura Investment Fund
- Estimated interest rate, actual not due at present time.
- **** Cash in bank

No investments were made pursuant to subdivision (i) of Section 53601, Section 53601.1 and subdivision (i) Section 53635 of the Government Code.
All investments were made in accordance with the Treasurer's annual statement of investment policy.