



# **City of Bellflower**

# **Municipal Water System**

# **2010 Annual Report**

**Revised**  
**June 3, 2010**

**City of Bellflower**  
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**Bellflower, California 90706**  
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## **Municipal Water System 2010 Annual Report**

**Introduction.** The following report, prepared for the City Council, provides an overview of the City’s Municipal Water System, including a brief history, summary of water sources and water costs, history of MWS water rates, prior year accomplishments, major initiatives for the coming two years, and a discussion of the challenges facing the MWS.

### **1. Definitions.** Where used herein:

- “Acre foot” or “af” means the amount of water necessary to cover an acre of land to a depth of one-foot. This is the standard unit of volume for large scale water resources.
- “Billing Cycle” or “BiMB” means the interval between water bills, presently bimonthly.
- “CBMWD” means the Central Basin Municipal Water District.
- “City” means the City of Bellflower.
- “Commodity Charge” means the rate charged per 100 cubic feet of water used, as established by resolution of the City Council.
- “CPUC” means the California Public Utilities Commission, a regulatory body that oversees, among other things, privately held water companies.
- “Customer” means the owner, tenant or other occupant of the property who has established the service connection.
  - “Commercial Customer” means any customer who is neither a residential customer nor the customer for service to a multifamily residential structure served by a master meter.
  - “Residential Customer” means any customer occupying a dwelling unit in any structure where each unit is served by a separate water meter.
- “Ground water” means water pumped from MWS own wells using MWS water rights.
- “Imported water” means water obtained from a third-party source.
- “MWS” means the City of Bellflower Municipal Water System.
- “MWD” means the Metropolitan Water District of Southern California.
- “Owner” means the owner of the property at which the service connection is located, or his/her authorized agent.
- “Person” means any individual, firm, company, public entity, association, society, corporation, partnership or group.
- “Service Charge” means a charge which is applicable to all metered service to provide reimbursement to the City for the costs of services related to the supplying of water to

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the property but which are not directly related to the amount of water utilized at a site but, instead, are otherwise appropriately apportioned to the customer, as established by resolution of the City Council.

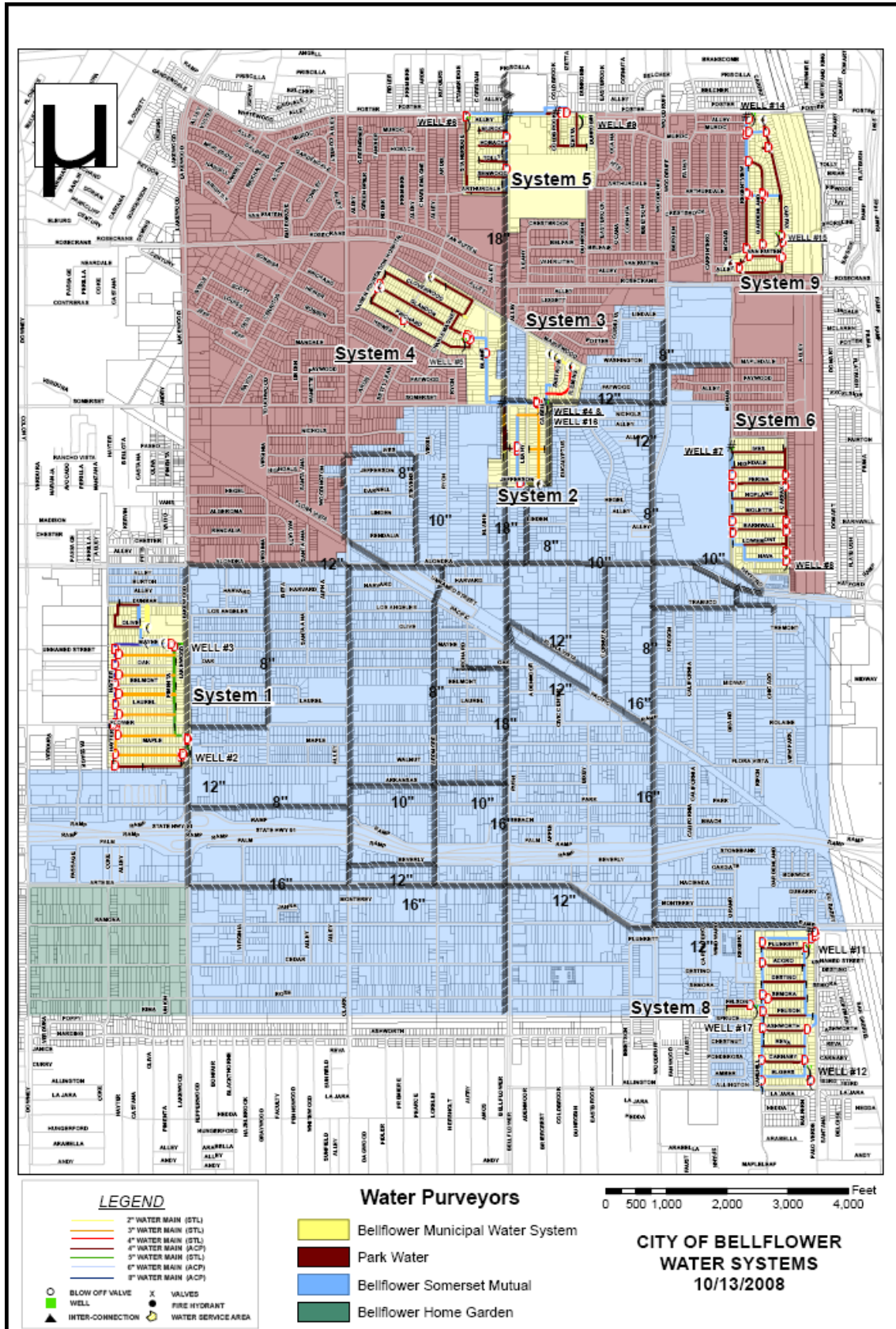
- “Service Connection” means the water line and appurtenant facilities used to extend water service from the water main to the meter box.
- “Service Extension” means the water line and appurtenant facilities used to extend water service from the meter to the customer’s premises.
- “Water Manager” means the individual appointed by the City Manager to coordinate on behalf of the City with the Water System Operator for the day-to-day operation of the MWS, and represent the City in related regulatory matters, presently Steven Bucknam of Bucknam and Associates.
- “Water Service Area” means the area of the City served by the MWS.
- “Water Service” or “Water Services” means supplying service through a pipe or other constructed conveyance for any purpose, but does not include the sale of water for human consumption by a water supplier to another water supplier for resale.
- “Water System” means the infrastructure of the City’s water system only.
- “Water System Operator” or “Operator” means the party with whom the City contracts for the operation of the water system, or delegated specific responsibilities for the operation of the water system, presently Bellflower-Somerset Mutual Water Company.

2. **Background.** The MWS was established by the City Council in 2007 to operate the water system acquired from Peerless Water Company at a cost of \$5.8 million.

a. The MWS currently serves more than 1,800 customers, or approximately 10% of the City, from eight separate systems in geographically separated areas:

<b>Distribution of MWS Customers</b>	
<b>System</b>	<b>Customers Served</b>
1	409
2 & 3	170
4	245
5	161
6	277
8	312
9	243
Non-System Customers	6
<b>Total</b>	<b>1,823</b>

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b. The MWS presently consists of three operating water wells, 77,218 linear feet of distribution pipeline, and several service interconnections to adjacent water providers for primary or standby water supply.

c. The MWS System also owns 986 acre feet of water rights. Although this is sufficient to meet our customer service demand, the geographic separation of the sub-systems and the limited pumping capacity of the three operating wells requires water be imported from other sources. In 2010-11 the MWS expects to pump approximately 250 acre feet to its own customers and lease the balance of its rights to other water providers.

d. The MWS' current estimated service demand is about 630 acre feet per year. This demand is met with 250 acre feet of groundwater (using the MWS' water rights) and 400 acre feet of water imported from the MWD, including an estimated 20 acre feet per year that is lost due to system flushing and other operations.

e. Under the direction of the City Manager, the Assistant City Manager oversees strategic planning, financial management, policy development, and capital projects for the MWS. He is aided by representatives of the City's Public Works and Finance Departments, the City's contract water program manager, and the City's contract water system operator.

f. The City's contract water system operator, Bellflower Somerset Mutual Water Company, is responsible for the day-to-day operation of the Water System.

**3. Key Dates.** The following are key dates in the history of the City's acquisition and operation of the Municipal Water System:

Circa 1940	Peerless Land and Water Company founded
December 14, 1999	Pending CPUC approval, Southern California Water Company and Peerless Water Company enter into merger agreement
May 22, 2000	Southern California Water Company and Peerless Water Company submit joint application to CPUC for approval of merger
October 2000	Peerless customers ask that City intervene to block merger
October 9, 2000	City Council adopts resolution opposing the proposed merger
October 23, 2000	Residents spoke to City Council requesting action to block merger
November 27, 2000	Residents spoke to City Council requesting action to block merger
November 13, 2000	City Council ordered a letter sent to Peerless customers with CPUC contact information
November 8, 2001	CPUC denied the proposed merger

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August 2002	City began formal negotiations for price and terms of payment for Peerless Water System
November 25, 2002	City Council approved an agreement (AFN 348) with Bucknam and Associates for water system consulting and engineering services
August 23, 2004	City Council approved the issuance of Negative Declaration for the acquisition of the Peerless Water Company water system
May 24, 2004	City Council authorized 1) making an offer to purchase and negotiate for the acquisition of Peerless Water Company assets in the City of Bellflower; 2) taking necessary actions to permit the City Council to consider the issuance of water revenue bonds for the acquisition; and 3) negotiating agreement(s) with Bellflower Somerset Mutual Water Company pertaining to the operation of the water system after acquisition
February 2004	Responsibility for oversight of MWS assigned to the Assistant City Manager
December 13, 2004	City Council initiated action to condemn Peerless Water Company
February 2005	City suspended negotiations to purchase Peerless Water System
May 2005	City entered into litigation with Peerless Water Company
June 2006	Bellflower Public Financing Authority (BFA) created
August 14, 2006	the City Council approved Operating Agreement with Bellflower-Somerset Mutual Water Company (AFN 320.4)
December 11, 2006	City adopted PWC rates as initial MWS water rates (Reso 06-66)
January 12, 2007	City of Bellflower assumed control of PWC assets
June 16, 2007	City increase water rates by 60% (Reso 07-21)
June 16, 2008	City increased water rates by 4% (Reso 08-32)
June 2008	City completed system interconnection at Lakewood and Walnut
July 9, 2008	City completed sale of \$8.23 million in MWS Certificates of Participation (COP)
November 2008	City completed closure of 12 inactive/abandoned water wells
June 2009	City completed replacement of the expansion tank and pump at Well 8

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October 28, 2009	City completed system interconnection from Mapledale to Van Ruiten
November 9, 2009	City increased water rates by 3.5% (Reso 09-70)
April 2010	City completed partial reconstruction of System 1 serving 108 customers
April 10, 2010	2010-2011 MWS rate recommendations due from Operator
October 1, 2010	First principal payment due on MWS COP

4. **Statewide Drought.** Despite the fact that the 2010 “wet” season currently stands at 95% of average precipitation, our statewide drought continues. While above average precipitation in October 2009, and January 2010 have helped, significantly below average precipitation in November, December, February, and March have led to a dry year.

As of April 20, 2010, the statewide snowpack, the source of one-third of California’s water supply, stood at 111% of average, slightly above historic averages.

Beginning in May 2008, Governor Schwarzenegger issued a series of Executive Orders, including the proclamation of a “condition of statewide drought,” directing the Departments of Water Resources and Public Health to take immediate steps to conserve water and calling upon local water agencies to take aggressive, immediate action to reduce water consumption locally and regionally. The City has implemented mandatory water conservation policies as described below, resulting in an 11% decrease in water demand from 2007-08 to 2009-10.

While statewide precipitation and snowpack conditions are near average and storage in most reservoirs has improved from the previous water year, statewide runoff continues to be significantly below average in Water Year 2009-2010 at 66 percent, similar to the Water Year 2008-2009 at 65 percent. With average statewide precipitation forecast for the next few months, and below average runoff forecasts drought conditions continue to be in effect. Because of this, the price for “imported” water has increased.

5. **Water Conservation.** In the past the City has relied on voluntary water conservation measures, but faced with a statewide drought, the increasing cost of imported water, and the Governor’s call for more aggressive water conservation, the City adopted mandatory water conservation measures in August 2009. The measures, found in Chapter 13.16 of the Bellflower Municipal Code, regulate hose watering, watering lawns and landscaping, indoor plumbing and fixtures, washing vehicles, drinking water in restaurants, water-efficient landscaping, and adoption of emergency measures by resolution, and include bi-annual reporting to the City Council by the Director of Public Works.

6. **Water Consumption.** As a result of conservation efforts, the MWS’ water consumption has decreased by 11% from 2007-08 to 2009-10, and is projected to remain about the same in 2010-11.

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<b>MWS Water Consumption<sup>1</sup></b>			
<b>2007-08 Actual</b>	<b>2008-09 Actual</b>	<b>2009-10 Projected</b>	<b>2010-11 Forecast</b>
706.11 af	667.43 af	630.00 af	630.00 af

**7. Water Sources.** Water used by Bellflower customers is either “groundwater” (i.e., water pumped from a well) or “imported water” (i.e., water transported via aqueduct or pipe from a remote source - Colorado River, Sacramento Delta, etc.). These water supplies are not unlimited, therefore it is necessary to conserve water and prevent the unnecessary and wasteful use of these limited resources.

The City is served by four retail water providers, each of whom rely on a combination of groundwater and imported water sources:

<b>Water Sources</b>				
<b>Water Provider</b>	<b>Percent of City Served</b>	<b>Service Demand</b>	<b>Water Source</b>	
			<b>Groundwater</b>	<b>Imported</b>
Bellflower Municipal Water System <sup>2</sup>	10%	630 af/yr <sup>3</sup>	40%	60%
Bellflower-Somerset Mutual Water Company	61%	5,408 af/yr	81%	19%
Park Water Company <sup>4 5</sup>	25%	2,041 af/yr	26%	70%
Bellflower Home Gardens Water Company	4%	400 af/yr	0%	100%
<b>Total</b>	<b>100%</b>	<b>8479 af/yr</b>	<b>61%</b>	<b>39%</b>

**8. Water Costs.** The cost of water is determined by its source. Ground water (i.e., water pumped from the MWS’ own wells) is the least expensive. Imported water (i.e., water from a third party) is more expensive, and the price is determined by the provider.

The MWD is our principal source of imported water, however since the MWS has no direct connection to the MWD’s infrastructure, it cannot buy water directly from the MWD. Water imported from the MWD must pass through third-party provider systems to get to the MWS. These include both the CBMWD and local water providers. These providers charge a premium (up to “whatever the market will bear”) for the use of their systems. The MWD rate is scheduled to increase 27.2% on January 1, 2011, and CBMWD will increase its Administrative Surcharge by 38.7% and its Readiness to Serve (RTS) Charge by 33.3% on January 1, 2011.

CBMWD’s retail rate for treated domestic water charges includes the MWD Tier 1 rates plus an additional Administrative Surcharge on top of MWD’s rates. The following is a breakdown of the current and proposed rate structures for both as well as their total and percent differentials both incremental and cumulative for each period indicated in the table.

<sup>1</sup> Does not include approximately 20 af/yr expended for system flushing and other maintenance operations.  
<sup>2</sup> Prior to the loss of Well 17, groundwater accounted for 50% of the water delivered. The loss of Well 17 represented a loss of 12% of our service demand and 30% of our pumping capacity.  
<sup>3</sup> Not including an approximate 20 af/yr expended for system flushing and other maintenance operations.  
<sup>4</sup> Park Water Company’s service demand and water source data is extrapolated from data for its Bellflower-Norwalk service area.  
<sup>5</sup> Park Water Company uses 4% recycled water.



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Central Basin Municipal Water District Rates <sup>6 7</sup>						
Category	Jan 09	Jul 09	Sep 09	Jan 10	Jul 10	Jan 11
MWD Tier 1 Rates <sup>8</sup>	\$579/af	\$579/af	\$701/af	\$701/af	\$701/af	\$892
MWD Readiness-to-Serve Charge <sup>9</sup>	\$12/af	\$12/af	\$18/af	\$18/af	\$18/af	\$24/af
CBMWD Rates Administrative Surcharge <sup>10</sup>	\$44/af	\$62/af	\$62/af	\$62/af	\$62/af	\$86/af
<b>Totals</b>	<b>\$635/af</b>	<b>\$653/af</b>	<b>\$781/af</b>	<b>\$781/af</b>	<b>\$781/af</b>	<b>\$1,002/af</b>
% Incremental	0.00	2.83	19.60	0.00	0.00	28.30
% Cumulative	0.00	2.83	22.99	22.99	22.99	57.80

Current and estimated future costs are:

MWS Current and Estimated Future Water Costs						
Source	Provider	Current MWS		Rate per Acre Foot		
		A/F Used	% Used	Current	Jan 11	Jul 11 <sup>11</sup>
Ground Water	MWS Groundwater	NA	NA	\$0	\$0	\$0
	• WRD Recharge Assessment <sup>12 13</sup>	NA	NA	\$182	\$202	\$224
	• Energy <sup>14</sup>	NA	NA	\$55	\$55	\$55
	• Treatment	NA	NA	\$30	\$30	\$30
	• 3 <sup>rd</sup> Party Wheeling Fee <sup>15</sup>	NA	NA	\$65	\$65	\$65
	<b>Total<sup>16</sup></b>	<b>250</b>	<b>38%</b>	<b>\$332</b>	<b>\$352</b>	<b>\$374</b>
Imported <sup>17</sup>	MWD via CBMWD <sup>6 18</sup>	0	0%	\$791	\$1,002	\$1,002
	Bellflower-Somerset Mutual Water Co. <sup>5</sup>	400	62%	\$700	\$846	\$1,027

9. **Water Rates.** Water rates have been raised three times since the MWS began operations in January 2007. The rates were raised in June 2007, June 2008, and November 2009. In January 2007 the average Peerless customer used 3,600 cubic feet of water per bimonthly billing period and paid \$88.36 per billing period. Presently the average MWS customer uses 2,508 cubic feet of water per bimonthly billing period and pays \$141.10 per

<sup>6</sup> Rates are based upon information from the MWD website and from the latest CBMWD rate increase projections.

<sup>7</sup> The MWS is also assessed two monthly charges by the MWD: a capacity charge of \$593.75 and a meter charge of \$433.34.

<sup>8</sup> January 2011 rate is based on current MWD projections.

<sup>9</sup> January 2011 charge is based on current MWD projections.

<sup>10</sup> January 2011 surcharge is proposed, but not yet formally adopted.

<sup>11</sup> Assumes High Capacity Well is online and in service on or before July 1, 2011.

<sup>12</sup> It is anticipated that the MWS will be required to pay a \$202 per acre foot Replenishment Assessment (“RA”) to the Water Replenishment District of Southern California to cover the MWS’ share of the costs incurred to recharge the aquifer that supplies groundwater to the MWS.

<sup>13</sup> WRD Recharge Assessment figures may be impacted by pending litigation regarding the Third Amended Judgment. If the Judgment is approved, the RA would increase by an additional approximately \$49/af.

<sup>14</sup> Assumes no increase to electrical rates

<sup>15</sup> The MWS delivers water via Bellflower-Somerset Mutual Water Company’s distribution system and pays a \$65 per acre foot “wheeling” fee for this use.

<sup>16</sup> MWS’ rate per acre foot does not include repair, maintenance, labor or depreciation.

<sup>17</sup> Until the High Capacity Well is online, if the MWS is unable to keep existing wells in service the percent of imported water used will increase dramatically.

<sup>18</sup> The MWS has no direct connection to the MWD or CBMWD and must import water through third party providers.

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billing period. The total increase, while significant, amounts to roughly \$1 per day. The ultimate cost is roughly one-half penny for every gallon of water used by the consumer.

Pursuant to Paragraph 9 of the Amended Operating Agreement between the City of Bellflower and Bellflower-Somerset Mutual Water Company (the “Operator”), the Operator must “by April 10 of each year...provide the City with a schedule of the proposed Water Rates for the ensuing Water Year.” The Operator is required to do so, whether or not any rate change is proposed.

The following is a summary history of the water rate changes made since the City’s acquisition of the MWS in January 2007 (note: the decreased average customer’s cost is due to decreased average customer’s use).

History of MWS Water Rates						
	Service Charge <sup>19</sup>	Commodity Charge <sup>20</sup>	Average Customer’s		Rate Change	Cost Change
			Use <sup>21</sup>	Cost <sup>22</sup>		
<b>Initial Rate</b>	\$26.44	\$1.720	36.00 ccf/bim	\$88.36	NA	NA
<b>2007</b>	\$68.98	\$2.051	36.00 ccf/bim	\$142.82	70%	62%
<b>2008</b>	\$71.74	\$2.133	30.27 ccf/bim	\$136.30	4%	-5%
<b>2009</b>	\$74.26	\$2.208	30.27 ccf/bim	\$141.10	3.5%	4%
<b>2010</b>	\$74.26	\$2.208	25.08 ccf/bim	\$129.64	0%	-8%

**10. MWS Finances.** While the bulk of MWS financing is derived from water sales, Federal grants for capital improvements and monies advanced by the City in the form of loans and in-kind services are significant components. Proceeds from the 2008 sale of Certificates of Participation have been another component; however these funds have been exhausted.

The following table shows Federal grants received or pending.

Federal Grants Received and Pending					
Program	Amount	Match	Total	Use	Deadline
2002 EPA STAG	\$873,000	\$714,273	\$1,587,273	Interconnect & HCW	10/31/12
2006 EPA STAG	\$361,300	\$295,609	\$656,909	HCW	10/31/12
2009 CDBG-R	\$319,000	\$0	\$319,000	System 1 Partial Replacement	9/30/12
2011 EPA STAG	\$1,500,000	\$675,000	\$2,175,000	Pending	Pending
WRDA	\$10,000,000	\$2,500,000	\$12,500,000	Pending	Pending

The following table shows money advanced to date by the City 1) to cover the MWS’ cash deficit; 2) in foregone interest on monies advanced to the water operator; 3) in absorbed City personnel costs for System management; and 4) for ratepayer assistance programs.

<sup>19</sup> Bimonthly service charge for 5/8 x 3/4-inch meter

<sup>20</sup> Per 100 cubic feet of water used; 100 cubic feet of water is equal to 748 gallons

<sup>21</sup> Individual customer’s estimated actual average bimonthly use

<sup>22</sup> Average bimonthly water bill using average use and service charge for 5/8 x 3/4-inch meter

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<b>Cumulative City General Fund Expenditures for MWS</b>					
	<b>2006-07 Actual</b>	<b>2007-08 Actual</b>	<b>2008-09 Actual</b>	<b>2009-10 Adopted</b>	<b>2010-11 Proposed</b>
Advance for MWS Cash Deficit	\$276,595	\$309,721	\$663,024	\$750,000	\$1,500,000 <sup>23</sup>
Staff Support & Foregone Interest	\$55,000	\$165,000	\$275,000	\$385,000	\$498,000
Ratepayer Assistance Programs	\$0	\$2,944	\$10,448	\$20,448	\$30,448
<b>Total</b>	<b>\$331,595</b>	<b>\$477,665</b>	<b>\$948,472</b>	<b>\$1,155,448</b>	<b>\$2,028,448</b>

In July 2008, the City completed the sale of \$8.23 million in Certificates of Participation, the proceeds of which have been used to reimburse the City's general fund for the purchase price of the MWS, pay the costs of issuance, and help pay for capital improvements to the System's infrastructure.

<b>Proceeds From 2008 Sale of Certificates of Participation</b>	
Revenue From Sales	\$8,230,000
– Less PWC Acquisition Costs	-\$6,212,081
– Less Cost of Issuance	-\$244,598
– Less Underwriter's Discount	-\$123,450
– Less Net Original Issue Discount	-\$144,983
– Less Deposit to Debt Service Reserve Fund	-\$539,819
Balance Available for MWS Capital Projects:	
• Well Disconnection / Destruction / Rehabilitation	
• Mapledale - Van Ruiten Waterline Interconnection	\$965,069
• System 1 Partial Water Main Line Replacement (Local Match)	
• High Capacity Well #1	

Upon completion of the High Capacity Well project, the balance available for capital projects will be exhausted.

**11. Major Accomplishments for 2009-2010.**

a. **Completed Mapledale to Van Ruiten Interconnect.** In October 2009, the City completed construction of a 2,800 foot pipeline connecting customers in System 9 (the area bounded by Foster Road, Regentview Avenue, Greenhurst Street, and the San Gabriel River) to Bellflower-Somerset Mutual Water Company's 12-inch distribution line at McNab and Mapledale. The \$331,000 project, which was built using federal grant funds and proceeds from the 2008 Certificates of Participation, allows the MWS to purchase water at a substantial savings.

b. **Completed Partial Reconstruction of System 1** – System 1 serves 409 customers in the west side of the City. Using \$319,000 in federal Community Development Block Grant - Recovery funds (with no matching local funds and at no direct cost to the MWS customers), the City replaced the water system serving 108 MWS customers in the low- and moderate-income census tract (Tract # 5543) which includes those portions of Oak and Belmont Streets

<sup>23</sup> 2010-11 advance includes \$508,000 required as a local match for federal grant funds used to construct High Capacity Well #1

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between Pimenta and Hayter Avenues, as well as sections on Pimenta Avenue and Mayne Street. The project included replacement of main lines, service laterals, hydrants and service connections, and the relocation and as needed replacement of water meters. The project was completed in April 2010.

c. **Began Construction of High Capacity Well #1.** Construction began in April 2010. For additional information see 13.a below.

d. **Service Connections.** Replaced 142 customer service connections in 2009-10, including 108 in System 1, for a cumulative total of 445 since 2007.

e. **Water Meters.** Replaced 168 water meters in 2009-10, including 108 in System 1, for a cumulative total of 295 since 2007.

### 12. Major Initiatives for 2010 – 2011.

a. **Complete High Capacity Well #1.** The City's highest priority capital project is construction of a high capacity well to serve the needs of our MWS customers and by leasing surplus pumping capacity also serve the customers of other water providers serving the City. A typical high capacity well operating at 50% capacity should be able to pump 2,500 acre feet/year or more than 300% percent of the MWS' annual demand. The new well will enable the MWS to pump its own water rights, which are more than sufficient to meet the needs of its customers. The resulting savings, along with potential revenue from the lease of surplus pumping rights, will provide local matching funds to be used with future federal grants to pay for capital improvements, reimburse the City's general fund for monies previously advanced to the MWS without interest, and provide some buffer against future significant rate increases. Construction began in April 2010 and is expected to be in service by July 2011.

- The estimated cost of the High Capacity Well is \$2.32 million, with an estimated \$966,330 available in federal grants and up to \$815,179 in unallocated Certificates of Participation (COPS) proceeds. An additional \$508,491 is required from other sources.

b. **Grants and Loans.** The City continues its aggressive pursuit of federal grant and loan funds needed to rebuild the Water System.

c. **Water System Reconstruction - Planning.** Begin planning for the phased reconstruction of the water system, including replacement of water mains, hydrants, meters and service connections.

d. **Residential Ratepayer Assistance Programs.** The City will continue to provide ratepayer assistance programs to qualified residential customers:

1. **Amortization Payment Plan.** Any residential customer who, on the certification of a licensed physician and surgeon that the termination of water service will be life threatening to the customer, and upon the customer providing information to demonstrate that the customer is financially unable to pay for service within the normal payment period, and who is willing to enter into an amortization agreement with the City with respect to all charges that

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the customer is unable to pay prior to delinquency shall, upon request, be permitted to amortize, over a period not to exceed 12 months, the unpaid balance of any bill asserted to be beyond the means of the customer to pay within the normal period for payment. Customers seeking more information about this program should contact the Municipal Water System office.

**2. Low Income Assistance Program for Water Rate Increases.** At any time that the City implements an increase in the water rate(s) charged, qualified low income residential customers may be determined by the City to be exempt from payment of fifty percent (50%) of the increase for a period not to exceed two years. The City Manager will establish additional rules and regulations necessary to administer this program. Customers seeking more information about this program should contact the Municipal Water System office.

**3. Low Income Assistance Program for Service Line Repairs.** Subject to the availability of funds, qualified low income residential customers may receive a deferred loan under the City's Home Improvement Program for the purpose of repairing service lines (i.e., the line connecting the meter to the house, up to the customer's turn-off valve). The City Manager will establish additional rules and regulations necessary to administer this program. Customers seeking more information about this program should contact the Municipal Water System office.

**13. Challenges.** In the coming years the MWS will face a number of significant challenges:

**a. Failure of Existing Wells.** Due to manganese contamination above the maximum permissible levels all of the MWS' three remaining wells (Wells 2, 3, and 8) must be permanently taken out-of-service by October 2011. Prior to that date the City expects to replace them with a new high capacity well.

**b. Increasing Cost of Imported Water.** The dramatic rise in the cost of imported water is expected to continue. By January 1, 2011, MWD/CBMWD rates are projected to rise by 51.52% over 2009 rates. The MWS currently imports about 60% of the water needed to serve its customers from the MWD. By the completion of a new high capacity well, the City expects to replace imported water with groundwater at about 1/6<sup>th</sup> the cost.

**c. City Financial Condition.** The City's worsening financial condition may limit its ability to continue advancing funds to support MWS operations.

**d. Required Local Match for Federal Grants.** The City is required to provide substantial local matching funds to most projects using federal grant funds. Typically the match is up to 50% of the federal grant. As the City's financial situation worsens, providing this match will become increasingly problematic.

**e. Required Principal and Interest Payments.** Beginning in October 2010, the City must make principal payments to the holders of the Certificates of Participation (COP) issued in July 2008 at an initial additional annual cost of \$135,000.