

# **City of Bellflower**

# **Municipal Water System**

# **2011 Annual Report**

**June 27, 2011**

**City of Bellflower  
16600 Civic Center Drive  
Bellflower, California 90706  
(562) 804-1424**

1. **Introduction.** The following report, which has been 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.

2. **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. One acre foot of water equals 325,851.4 gallons. 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.

- "Groundwater" means water pumped by a provider from its own wells for its own use.

- "GPM" means "gallons per minute," the standard measurement used for water flow.

- "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 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 C. Stephen Bucknam, Jr., of Bucknam and Associates, Inc.

- “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.

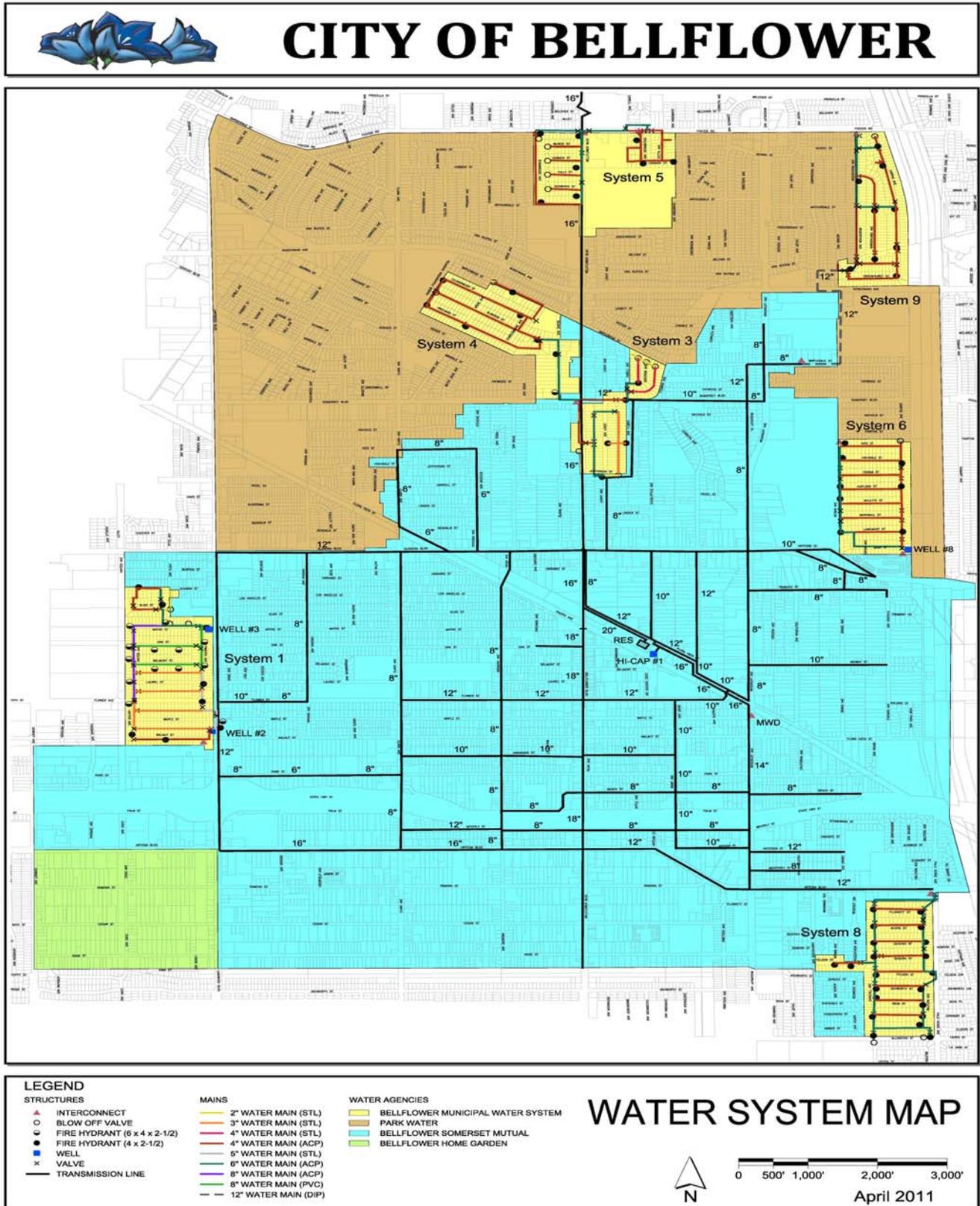
- “Water System” means the infrastructure of the City’s water system only.

- “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.

3. **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	412
2 & 3	170
4	243
5	161
6	277
8	312
9	243
Non-System Customers	6
<b>Total</b>	<b>1,824</b>



b. The MWS presently consists of three operating water wells, 77,307 linear feet (including 89 ft. to be added with completion of High Capacity Well # 1) of distribution

pipeline, and several service interconnections to adjacent water providers for primary or standby water supply.

c. The MWS System also owns 998 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 222 acre feet to its own customers and lease the balance of its rights to other water providers. The City will continue to import water from other sources until High Capacity Well #1 is completed, at which time the full service demand of the MWS will be pumped locally, and the remaining pumping capacity will be offered for lease to other purveyors serving the Bellflower community.

d. The MWS' current estimated service demand is about 672 acre feet per year. This demand is met with 222 acre feet of groundwater (using the MWS' water rights) and 450 acre feet of water imported from the MWD. The service demand includes an estimated 50 acre feet per year that is used for 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.

**4. 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 PUC contact information sent to Peerless customers
November 8, 2001	CPUC denied the proposed merger
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, Inc., 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 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
February 2004	Responsibility for MWS oversight assigned to 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	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 increased 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	Completed sale of \$8.23 million in MWS Certificates of Participation
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
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	Completed partial reconstruction of System 1 serving 108 customers
April 10, 2010	2010-2011 MWS rate recommendations due from Operator
October 1, 2010	City began making principal payments on MWS COP
October 12, 2010	Completed drilling of High Capacity Well #1

**5. Statewide Drought Emergency.** As a result of increased rainfall during the last two years and corresponding increases to the State's snowpack and reservoir levels, the statewide drought emergency proclaimed by Governor Schwarzenegger in May 2008 was ended by Governor Brown in March 2011.

**6. Water Conservation.** Traditionally, the City has relied on voluntary water conservation measures; however, at the onset of the Statewide drought emergency the City adopted mandatory water conservation measures regulating hose watering, watering lawns and landscaping, indoor plumbing and fixtures, washing vehicles, drinking water in restaurants, and water-efficient landscaping. These measures are found in Chapter 13.16 of the

Bellflower Municipal Code. With the end of the drought emergency, the City suspended enforcement of all mandatory water conservation measures. Although water conservation is no longer mandatory, given Southern California's arid climate and longstanding water supply issues, residents are most strongly encouraged to conserve water whenever possible. Water remains our most valuable and essential natural resource.

**7. Water Consumption.** As a result of conservation efforts, the MWS' water consumption has decreased by approximately 12% from 2007-08 levels. The City continues to search for ways to reduce consumption and improve efficiency.

<b>MWS Water Consumption<sup>1</sup></b>				
<b>2007-08 Actual</b>	<b>2008-09 Actual</b>	<b>2009-10 Actual</b>	<b>2010-11 Projected</b>	<b>2011-12 Forecast</b>
756.11 af	717.43 af	672.40 af	672.00 af	672.00 af

**8. 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>Operating Wells</b>	<b>Water Source</b>	
				<b>Ground</b>	<b>Imported</b>
Bellflower Municipal Water System	10%	672 af/yr	3 + 1 <sup>2</sup>	33%	67%
Bellflower-Somerset Mutual Water Company	61%	5,451 af/yr	8	82%	18%
Park Water Company <sup>3</sup>	25%	2,021 af/yr	1 <sup>4</sup>	32%	66%
Bellflower Home Gardens Water Company	4%	400 af/yr	0	0%	100%
<b>Total</b>	<b>100%</b>	<b>8,544 af/yr</b>	<b>12 + 1</b>	<b>62%</b>	<b>38%</b>

**9. 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. MWD is our principal source of imported water, however since MWS has no direct connection to the MWD's infrastructure, it cannot buy water directly. Water imported from MWD must pass through third-party provider systems to get to MWS. These include both CBMWD and local water providers. These providers charge a premium for the use of their systems. The following is a breakdown of current and proposed rate structures for both MWD and CBMWD, as well as their total and percent differentials both incremental and cumulative for each period indicated in the table.

<sup>1</sup> Includes approximately 50 af/yr expended for system flushing and other maintenance operations.  
<sup>2</sup> Includes three wells which are scheduled to be taken out of service by December 31, 2011 due to contamination, and one high capacity well currently under construction.  
<sup>3</sup> Park Water Company's service demand and water source data is extrapolated from data for its Bellflower-Norwalk service area. Park Water Company uses 2% recycled water in the Bellflower/Norwalk Service Area.  
<sup>4</sup> Only includes those wells physically located in Bellflower.

Central Basin Municipal Water District Rates (\$/af) <sup>5 6</sup>								
Category	Jan 07	Jan 09	Jul 09	Sep 09	Jan 10	Jul 10	Jan 11	Jan 12
MWD Tier 1 Rates <sup>7</sup>	\$478	\$579	\$579	\$701	\$701	\$701	\$744	\$794
MWD Readiness-to-Serve Charge <sup>8</sup>	\$7	\$12	\$12	\$18	\$18	\$18	\$25	\$25
CBMWD Administrative Surcharge	\$40	\$44	\$62	\$62	\$62	\$86	\$86	\$86
<b>Totals</b>	<b>\$525</b>	<b>\$635</b>	<b>\$653</b>	<b>\$781</b>	<b>\$781</b>	<b>\$805</b>	<b>\$855</b>	<b>\$905</b>
% Change - Incremental	N/A	20.95	2.83	19.60	0.00	3.20	6.21	5.85
% Change - Cumulative	N/A	20.95	24.38	48.76	48.76	53.33	62.85	72.38

MWS Current and Estimated Future Water Costs						
Source	Provider	Current MWS		Rate per Acre Foot		
		A/F Used	% Used	Current	Jul 11	Jan 12
Ground Water	MWS Groundwater	222	33%	\$0	\$0	\$0
	• WRD Recharge Assessment <sup>9 10</sup>	NA	NA	\$205	\$244	\$244
	• Energy <sup>11</sup>	NA	NA	\$55	\$55	\$55
	• Treatment	NA	NA	\$30	\$30	\$30
	• 3 <sup>rd</sup> Party Wheeling Fee <sup>12</sup>	NA	NA	\$70	\$70	\$70
	<b>Total<sup>13</sup></b>	<b>222</b>	<b>33%</b>	<b>\$335</b>	<b>\$399</b>	<b>\$399</b>
Imported <sup>14</sup>	MWD via CBMWD <sup>15</sup>	0	0%	\$855	\$855	\$905
	Bellflower-Somerset Mutual Water Co.	450	67%	\$925	\$925	\$975

**10. 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 approximately 2,475 cubic feet of water per bimonthly billing period and pays approximately \$129 per billing period, similar to the average rate paid to other providers in the Bellflower area. The total increase since 2007, 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.A of the Amended Operating Agreement between the City of Bellflower and Bellflower-Somerset Mutual Water Company (the "Operator"), the Operator

<sup>5</sup> Rates are based upon information from MWD website and from the latest CBMWD rate increase projections.  
<sup>6</sup> MWS is also assessed two monthly service charges by the MWD: a capacity charge of \$593.75 and a meter charge of \$690.00.  
<sup>7</sup> January 2012 rate is based on current MWD projections.  
<sup>8</sup> January 2012 charge is based on current MWD projections.  
<sup>9</sup> MWS is required to pay a \$205 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>10</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>11</sup> Assumes no increase to electrical rates  
<sup>12</sup> The MWS delivers water via Bellflower-Somerset Mutual Water Company's distribution system and pays a \$70 per acre foot "wheeling" fee for this use.  
<sup>13</sup> MWS' rate per acre foot does not include repair, maintenance, labor or depreciation.  
<sup>14</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>15</sup> MWS has no direct connection to the MWD or CBMWD and must import water through third party providers.

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) and a comparison of current local water rates.

<b>History of MWS Water Rates</b>						
	Service Charge <sup>16</sup>	Commodity Charge <sup>17</sup>	Average Customer		Rate Change	Cost Change
			Use <sup>18</sup>	Cost <sup>19</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%
<b>2011</b>	\$74.26	\$2.208	24.76 ccf/bim	\$128.93	TBD	TBD

<b>Comparison of Current Local Water Rates</b>			
Provider	Fixed Charge	Use Charge	Average Customer Bill <sup>20</sup>
Municipal Water System	\$74.26 bim	\$2.208/ccf	\$128.93
Bellflower-Somerset Mutual Water Company	\$0.00 bim	1st 14 ccf – 24.50 ea ccf > 14 - \$1.75	\$43.33
Bellflower Home Gardens Water Company <sup>21</sup>	\$48.00 bim	\$0.00	\$48.00
Park Water Company	\$32.94 bim	Res ≤ 12 ccf - \$3.310 Res > 12 ccf - \$3.793 Non-Res - \$3.509	\$121.06

**11. 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.

<b>Federal Grants Received and Pending</b>					
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
2012 EPA STAG	\$1,500,000	\$675,000	\$2,175,000	Pending	Pending
2012 WRDA	\$10,000,000	\$2,500,000	\$12,500,000	Pending	Pending

The following table shows monies 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>16</sup> Bimonthly service charge for 5/8 x 3/4-inch meter

<sup>17</sup> Per 100 cubic feet of water used; 100 cubic feet of water is equal to 748 gallons

<sup>18</sup> Individual customer's estimated actual average bimonthly use

<sup>19</sup> Average bimonthly water bill using average use and service charge for 5/8 x 3/4-inch meter

<sup>20</sup> Assumes 24.76 ccf (100 cubic feet) use per bi-monthly (bim) billing period x use charge + fixed charge

<sup>21</sup> Bellflower Home Gardens charges a flat rate of \$24.00/month for each dwelling unit on a property.

<b>Cumulative City General Fund Expenditures for MWS</b>				
	<b>Advance for MWS Cash Deficit</b>	<b>Staff Support &amp; Forgone Interest</b>	<b>Ratepayer Assistance Program</b>	<b>Total</b>
<b>2006-07 Actual</b>	\$276,595	\$55,000	\$0	<b>\$331,595</b>
<b>2007-08 Actual</b>	\$309,721	\$165,000	\$2,944	<b>\$477,665</b>
<b>2008-09 Actual</b>	\$663,024	\$275,000	\$10,448	<b>\$948,472</b>
<b>2009-10 Actual</b>	\$1,037,161	\$385,000	\$19,787	<b>\$1,441,948</b>
<b>2010-11 Adopted</b>	\$1,600,000 <sup>22</sup>	\$498,000	\$39,787	<b>\$2,037,787</b>
<b>2011-12 Projected</b>	\$2,000,000	\$614,000	\$59,787	<b>\$2,773,787</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. At the completion of the high capacity well project, the balance of these funds will have been exhausted.

<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
– Expended for MWS Capital Projects:	
• Well Disconnection / Destruction / Rehabilitation	
• Mapledale - Van Ruiten Waterline Interconnection	
• System 1 Partial Water Main Line Replacement (Local Match)	
• High Capacity Well #1	-\$965,069
Balance	\$0

## 12. Major Accomplishments for 2010 - 2011.

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

b. **Service Connections.** A cumulative total of 446 customer service connections, including 109 in System 1, have been replaced since 2007.

c. **Water Meters.** A cumulative total of 295 water meters, including 108 in System 1, have been replaced since 2007.

<sup>22</sup> 2010-11 advance includes \$508,000 required as a local match for federal grant funds used to construct High Capacity Well #1

### 13. Major Initiatives for 2011 – 2012.

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 also those of the customers of other water providers serving the City.

1. **Cost of Construction.** The estimated cost of the High Capacity Well is \$2.54 million, using \$966,330 in federal grants, \$815,179 in proceeds from the 2008 sale of Certificates of Participation, and an additional \$758,491 from the City's general fund reserves (due to increased pumping capacity, this is a \$220,000 increase over earlier estimates).

2. **Pumping Capacity.** Based on hydrological data and operational experience from other nearby wells, the City originally estimated the High Capacity Wells maximum pumping capacity would be 2,500 GPM or 4,033 af/yr. Based on August 2010 tests conducted at the completion of well drilling, we determined the well's actual maximum pumping capacity to be 3,500 GPM or 5,646 af/yr, a 40% increase over our original estimate. The well's normal operational pumping capacity will be 80-85% of its maximum capacity.

a. When complete, the well will enable the MWS to meet 100% of its customer's service demand using groundwater and thereby eliminate our dependence on more costly water imported from the MWD.

b. The well's surplus pumping capacity will be offered for lease to other water purveyors serving the Bellflower community.

c. The resulting savings in water costs and revenue from leased surplus pumping capacity will provide required local matching funds for use 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.

3. **Construction Progress.** Construction began in April 2010 and was expected to be in service by July 2011. The well's increased pumping capacity required significant changes to the well's equipment (chiefly an aboveground pump and an enclosing pump house) and resulting additional environmental requirements will delay the well's completion to early 2012.

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 phased reconstruction of the 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 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.

**14. Challenges.** In the coming year we face a number of significant challenges:

**a. City's Financial Condition.** The loss of sales and property tax revenues and the diversion of other revenues by the State to address its own financial problems have forced the City to make significant budget reductions. Despite resulting cuts to personnel and services, the City has had to spend from its reserves to maintain essential services. In the face of this financial hardship it will be increasingly difficult for the City to continue to underwrite MWS operations. For additional information see 10 above.

**b. Replacement of Existing Wells.** Due to manganese contamination above maximum permissible levels the MWS' three remaining wells (Wells 2, 3, and 8) must be taken out-of-service by December 31, 2011. Although the City has asked for an extension until the High Capacity Well enters service, if the wells have to be taken out-of-service before the well enters service, the City will have to replace their groundwater production with much more expensive imported water.

**c. Increasing Cost of Imported Water.** The dramatic rise in the cost of imported water is expected to continue. On January 1, 2011, MWD/CBMWD rates were again increased. The MWS currently imports approximately 67% of the water needed to serve its customers from the MWD through a third party provider. With the completion of the high capacity well, the City expects to replace imported water with groundwater at about 1/6<sup>th</sup> the cost.

**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.