2009 Water Rate Increase: Questions & Answers

1. Q. How much is the proposed 2009 Rate Increase?
   A. The proposed increase would be 3.5% of the average customer’s total bi-monthly water bill for both the commodity and service charges. The actual dollar amount of increase would vary depending on a customer’s actual water use.

   The average customer’s bi-monthly water bill (based on the consumption of 3,027 cubic feet per bi-monthly billing period) will rise from $136.30 to $141.07, or $4.77 per billing period, or $28.62 per year, or just over 55 cents per week.

2. Q. How much was the 2008 Rate Increase?
   A. The 2008 increase was 4%, or per customer on average about $31.44 per year or $5.24 per billing period or less than 60 cents per week.

3. Q. Why do we need another rate increase?
   A. In the proposed 2009-2010 operating budget, estimated expenses exceed estimated revenues by $85,261.

4. Q. Why is there a budget shortfall?
   A. The budget shortfall is the result of a number of things:

   • A 25% increase in the cost of water purchased from the MWD (Metropolitan Water District of Southern California) through the Central Basin Municipal Water District.
   • A 1% increase in the Consumer Price Index (CPI), reflecting the increased cost of goods and services, including fuel, energy, insurance, materials (pipe, asphalt, etc.), and labor.
   • The cost of ongoing capital repairs.

5. Q. How much water do we buy from the MWD?
   A. About 34% of the MWS’s water is groundwater (i.e., water pumped from our own wells), and 66% is "imported" water, purchased from the MWD through the Central Basin Municipal Water District via Bellflower-Somerset Mutual Water Company and Park Water Company.

6. Q. Why are we replacing service connections?
   A. The service connection is the assembly of pipes and valves that connect the water main to the water meter. For customers experiencing low water pressure, a bad service connection is the principal cause. From January 2007 to date, the MWS has replaced 315 service connections at a cost of about $1,200 each, resulting in significantly increased water pressure to the effected customers and some reported improvements to discoloration, odor, taste, or dissolved oxygen problems. The proposed budget includes money to continue on-demand replacement of service connections.

7. Q. Why is the City replacing water meters?
   A. Many of the MWS’ water meters are old and unreliable. Many are located in back yards, some of which are gated and require prior arrangement with the customer to read the meter. From January 2007 to date, the MWS has replaced 68 water meters at a cost of about $300 each. The new meters are designed to be read electronically and without the need to enter the customer’s property. This will eventually save labor costs by reducing the time required for meter reading from 80 hours a month to about 24 hours per month.

8. Q. Will we have another rate increase next year? Will there be a rate increase every year?
   A. The short answer to both is probably “yes.” The cost of goods and services rise from year to year, and consequently the cost to provide water service to our customers also rise. However, the City is trying to find alternative methods to relieve the cost burden upon our customers such as grants, the sale of surplus real property, and capital projects that enhance operational efficiency and make the system less dependant upon imported water.

9. Q. What percent of the City is served by the MWS?
   A. The MWS serves about 10% of the City: 1,819 service connections serving about 7,500 people.
10. Q. Why can’t the City assume a share of the cost to operate the MWS?
   A. When the City agreed to buy what is now the MWS, it was with the understanding the City did not have the
   financial resources to pay for the operation of the MWS from the City’s general revenues, and the reduction
   of services to do so would be unfair to the 90% of the people of Bellflower not served by the MWS.

   Despite this commitment, the City has provided substantial support to the MWS:
   
   - As of June 30, 2009, the City has advanced more than $650,000 from its General Fund Reserve to
     cover the MWS’ cash deficit and to provide initial operating capital. The City has indefinitely foregone
     interest on $400,000 of the monies advanced.
   
   - As part of the High Capacity Well project, and absent any additional federal or State funds, the City is
     prepared to advance another $505,000 to complete the well.
   
   - Through June 2010 and without direct cost to MWS customers, the City will provide approximately
     $270,000 in staff support for the management and oversight of the MWS.
   
   - The City has obtained more than $1.2 million in federal grants for reconstruction of the MWS.

11. Q. What is the City doing to reduce operating costs?
   A. The City currently has three major capital projects underway that will help control or reduce MWS operating
      costs:
   
   - **Mapledale – Van Ruiten Interconnect** – in August 2009, the City began construction of a 2,500 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 is being built using federal
     grant funds and proceeds from the 2008 Certificates of Participation, will allow the MWS to purchase
     water at a substantial savings. The project is due to be completed by November 1, 2009.
   
   - **System 1 Partial Reconstruction** - Using $319,000 in federal American Recovery and Reinvestment
     Act funds, the City is finalizing plans to replace the water system that serves up to 74 MWS customers
     in the low- and moderate-income census tract (Tract # 5543) which includes those portions of Oak and
     Belmont Streets between Pimenta and Hayter Avenues, as well as sections on Pimenta Avenue and
     Mayne Street. The project includes replacement of main lines, service laterals, hydrants and service
     connections, and the relocation and as needed replacement of water meters. The project is expected
     to begin in January 2010 and be completed by April 2010. By use of federal funds that do not require
     matching local funds, the project will be accomplished at no direct cost to the MWS customers. By
     replacing the above described portions of the water system infrastructure we will reduce operation,
     maintenance and repair costs.
   
   - **High Capacity Well #1** – in August 2009, the City began design of a High Capacity Well. We expect
     to begin drilling operations in February 2010, and have the well in service by July 2011. The High
     Capacity Well will allow the MWS to pump its own water rights which are sufficient to meet the service
     demand of all MWS 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.

12. Q. Does the City make a profit from operating the MWS? Will it make a profit in the future?
   A. No, by law and as a matter of public policy the City is prohibited from making any profit from its operation
   of the MWS. Although no surplus is anticipated, any surplus revenue would be used solely to benefit the
   water system. The City is allowed however, to recover its “out-of-pocket” costs related to its operation of
   the MWS.
13. **What “out-of-pocket” costs does the City recover?**
   A. The MWS’ proposed 2009-10 operating budget includes a City Administrative Cost Component of $161,500. This includes required engineering, legal, grant management, and independent audit services; insurance, and printing and postage for legally required public notices. It does not include about $100,000 in City staff time for management, financial oversight, inspection, and other engineering services.

14. **Why did the City buy what is now the MWS, formerly the Peerless Water Company?**
   A. The short answer is, because Peerless customers asked the City to do so.

   In 2000, the owners of Peerless Water Company sought approval from the California Public Utilities Commission (CPUC) for the merger of their company with Southern California Water Company, a subsidiary of American States Water Company. The public notice of the merger disclosed that Peerless’ owners would be paid $4 million (in addition to other unspecified benefits - salary and stock - from their continued participation in the merged company), that water rates would immediately increase by 18%, and that unspecified further increases would be required to recover the purchase price and pay for $11 million in needed improvements. In response, a number of Peerless’ customers urgently requested that the City act to block the sale. In response, in November 2000 the City made a strong case to the California Public Utilities Commission that the proposed merger was not in the public interest. These efforts were successful and the Public Utilities Commission stopped the merger.

   Subsequently, Peerless’ owners entered into discussions with other local water providers for the sale of the company. Due to the high price demanded by Peerless, the condition of the system infrastructure, and the local water provider’s ineligibility for federal grants, these discussions were fruitless.

   In the aftermath of these failed discussions, and recognizing that Peerless’ owners ultimately had the right to sell their company on the open market if there were no local buyers, the City opened negotiations for the purchase of Peerless’ assets. Again, due to the high price demanded, these negotiations were unsuccessful.

   In 2004, the City commenced an eminent domain condemnation of Peerless. As a result of this threatened condemnation, Peerless’ owners reopened negotiations with the City resulting in a January 2006 tentative agreement for the sale of Peerless’ assets to the City.

   On January 12, 2007, the City of Bellflower took possession of the assets of Peerless in exchange for the sum of $5.8 million. These assets included 986 acre feet of water rights, four operating wells, several parcels of real property, a number of utility easements, water mains, pumps and meters, and 1,818 customers.

15. **How is the City financing the water system?**
   A. In June 2008, the City issued approximately $8 million worth of Certificates of Participation. Certificates of Participation are a form of indebtedness similar to bonds, but funded from lease revenue instead of a general obligation. The proposed term of the certificates is 32 years. The certificates will be repaid using water system revenue, and the City will pledge City Hall and certain water system assets as collateral. The proceeds from the sale will fund debt service reserve, General Fund reimbursement for water system acquisition, and limited capital projects, some of which have been started using cash advanced from the City’s General Fund. Information concerning the sale of these securities will be made available to interested local investors.

16. **What can I do to stop the rate increase?**
   A. Customers and other residents wishing to make known their opinion about the proposed rate increase can do so by writing or contacting members of the City Council, speaking during the public comment portion of any regular City Council meeting where the rate increase is not on the agenda, and speaking at the November 9th public hearing. Customers may also make a formal protest of the rate increase.

17. **When and where does the City Council meet?**
   A. The City Council normally meets on the 2nd and 4th Monday of each month. Those meetings are scheduled to begin at 7:00 p.m. The Council meets in the Council Chambers at Bellflower City Hall, 16600 Civic Center Drive.
18. Q. What is a “protest”?
   A. Customers-of-Record, as defined by law have a right to formally protest any proposed rate increase. If 50% plus 1 of the MWS’ customers make a valid protest, then the City Council would be prohibited by law from adopting the proposed increase. The MWS presently has 1,819 customers. A successful protest would require valid protests from 910 of the customers.

19. Q. Is a petition the same as a protest?
   A. No. A protest is the direct process the law specifically establishes for a majority of rate payers to stop any proposed rate increase. While anyone has the right to circulate and present a petition to the City Council opposing a proposed water rate increase, that petition would only be advisory and would not legally bind the City Council. While the Council would certainly consider any such petition, that petition would not have the same direct effect on the proposed rate increase as a majority protest.

20. Q. How do I make a protest?
   A. The requirements for making a protest are detailed in the public notice sent to each customer. Due to the specific legal requirements involved, it would be inappropriate to summarize or expand upon the language contained in that public notice. Copies of the public notice are available at the City’s website, www.bellflower.org/water or by calling the Municipal Water System Office at (562) 531-1500.

21. Q. What happens if the protest is successful?
   A. If the protest is successful, the City would be unable to adopt the proposed increase.
      a. In the short term, the City would be faced with several choices:
         • Do nothing – not really an option, as the City is prohibited from operating with a budget deficit.
         • Propose another rate increase, at the same or a higher or lower amount. This would require a new public notice and would be subject to another protest.
         • Despite promises to the contrary, use money from the City’s general fund to cover the MWS budget deficit.
         • Sell a portion of the MWS’ water rights, either on the open market or to the City. While this would provide some short term financial gain, in the long term the MWS customers would have to pay market rate prices to buy back water it now owns.
         • Defer or limit needed capital repairs (i.e., service line and meter replacements). In the case of service line repairs, customers needing such replacements would have to be placed on a waiting list.
         • Seek voter approval to sell the water system on the open market – not really an option now that we have issued $8 million in Certificates of Participation (i.e., “bonds”).
      b. In the long term, the decision not to increase the water rates would create a “structural deficit” in the MWS’ budget similar to that existing in the State budget (i.e., expenses would exceed revenue). This means that the next fiscal year’s budget would have a built-in 6% short fall before any new expenditures were considered. If the failure to adopt a rate increase were to continue, then the shortfall would grow, ultimately becoming either a drain on the City’s other limited resources, or requiring long term deferral of much needed capital repairs, and potentially foregoing Federal grants due to our inability to provide any required matching funds.

22. Q. Is there any aid to help financially strapped customers?
   A. Yes. The City Council established a Low-Income Assistance Program for Water Rate Increases and a Low- and Moderate-Income Assistance Program for Water Service Line Repairs. Information about these programs is available online at www.bellflower.org/water or by calling the Municipal Water System Office at (562) 531-1500.