

Financial Analysis prepared for the Arrowbear Park County Water District



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Water Resources Control Board

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April 6, 2022

Emma Blankenship
Small Community Technical Assistance
Division of Financial Assistance
State Water Resources Control Engineer
1001 I St. 16th Floor
PO Box 944212
Sacramento, CA 95814

Subject: Arrowbear Park County Water District Rate Study

Dear Emma:

Enclosed please find the printed final report for Arrowbear Park County Water District Rate Study.

The rate adjustment options were presented to the Arrowbear Park County Water District Board on Feb. 17, 2022. From several options, the Board selected one they feel will best fit their community. The Proposition 218 hearing is scheduled for June 16, 2022.

If you have any additional questions, feel free to contact Mary Fleming at 916/549-6338 or Michael Boyd at 308/641-2807.

Sincerely,

Michael Boyd

Michael Boyd
RCAC, Regional Field Manager
Community & Environmental Services

Enclosure: Arrowbear Park County Water District Water Rate Study

CC: Arrowbear Park County Water District

Executive Summary

Arrowbear Park County Water District (APCWD) was formed in 1953 under Division 12 of the California Water Code to provide water, sewer collection and fire protection services to the residents and visitors of Arrowbear Lake. APCWD is a special district governed by a locally elected five-member Board of Directors. The District's day-to-day operations are conducted under the direction of General Manager Norman Huff. APCWD provides water services to 955 connections.

Through the State Water Resources Control Board, APCWD requested that RCAC conduct a rate analysis. RCAC worked with APCWD General Manager Norman Huff to develop several rate adjustments options to present to the Board, which establishes the rates. Several proposed rate adjustment options were presented to the Board on Feb. 17, 2022. From the proposed rate adjustment options, the Board selected the one it considered would best serve the community and the District's water enterprise.

RCAC conducted this water rate study to evaluate four primary areas. These are:

- Determine if the current rate structure is adequate to ensure sustainability, including funding of necessary reserves.
- Propose an alternate rate structure if existing structure lacks sustainability.
- Analyze affordability of a newly proposed rate adjustment(s).
- Recommend reserve requirements for system sustainability and to meet debt covenants.

RCAC reviewed APCWD's financial documents, including audited financial statements for the fiscal years ended June 30, 2018, 2019 and 2020, the internal Income Statement for the fiscal year ended June 30, 2021, and the 2022 approved budget and a list of equipment for the water system. From that, and with the assistance of the APCWD's general manager, five-year cost projections were created assuming a 3 percent annual inflation rate. In reviewing cost information against revenue at the current rates, it was determined that a rate adjustment is necessary.

Several proposed rate adjustment options were explored that would achieve the four goals previously discussed. After lengthy discussions, APCWD management and governing Board reached a consensus that the following option would best accomplish those four goals.

The proposed rate adjustment for water service:

In the proposed rate structure, each connection is charged a base rate according to meter size with 60 percent of fixed costs (those unaffected by the amount of water delivered) recovered in the base rate and the remaining is funded by the usage charge. A gradual recovery of total costs needed to achieve desired goals is calculated in this option. It should be noted that the 6" meter base rate is not charged the typical AWWA meter equivalency due to the unique situation that the one 6" meter in the District is providing fire flow capacity to a camp.

There is no usage allowance in the base rate. The usage charge is set at \$5.00 per 100 cubic feet (100 Cu' = 748 gallons).

Meter Size	Rate Year #1	Rate Year #2	Rate Year #3	Rate Year #4	Rate Year #5
¾"	\$ 33.55	\$ 36.91	\$ 40.60	\$ 44.66	\$ 49.12
1"	\$ 71.05	\$ 78.16	\$ 85.97	\$ 94.57	\$ 104.02
1.5"	\$142.10	\$ 156.31	\$ 171.94.	\$ 189.14	\$ 208.05
2"	\$227.36	\$ 250.10	\$ 275.11	\$ 302.62	\$ 332.88
6"	\$376.00	\$413.60	\$ 454.96	\$ 500.46	\$550.40

In this proposed rate structure, revenues will fall short of fully funding reserves in the first three years. However, the recovery will happen over the final two years with a total revenue over costs of \$3,920 over the five-year period. After the first year of this proposed rate adjustment, annual increases of 10 percent to the base rates and 2.5 percent to the usage charges will be necessary. Overall, this proposed rate structure will recover all operating costs and provide modest capital replacement reserve funding over the course of the five-year period.

This proposed rate structure does fall short of the desired 1.5 percent affordability index. When rates are below 1.5 percent of the median household income for the area, the District may find it difficult to obtain grants and/or low interest loans for projects. The Board may want to consider implementing a more robust capital replacement reserve policy and increase the rates to the minimum affordability index threshold to qualify for low interest loans.

1. Arrowbear Park County Water District

Community

Arrowbear Lake is located in the San Bernardino National Forest in San Bernardino County, California. It is located within the Running Springs census designated place (CDP). The name is derived from the fact that it lies halfway between Lake Arrowhead and Big Bear. While Arrowbear Lake has a fulltime population of approximately 1,400 residents, the scenic mountain community frequently hosts several hundred visitors on weekends and holidays.



Water System

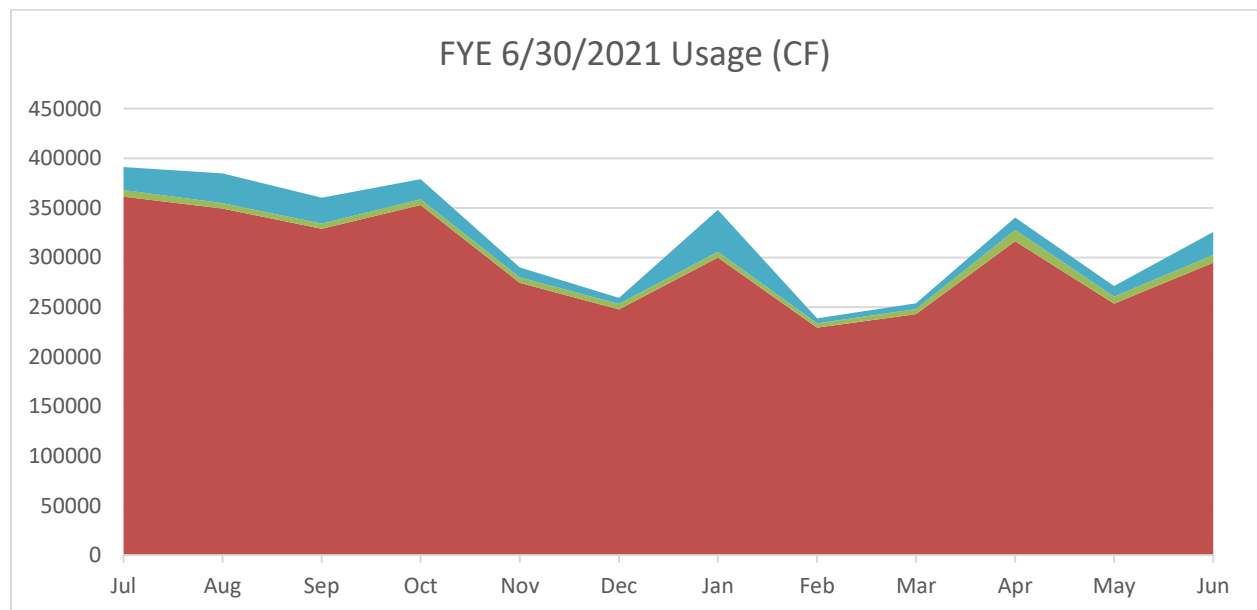
The APCWD's existing water system currently serves a permanent population of 1,396 persons through 926 residential service connections. The water system also has 28 commercial service connections, one park district connection and provides bulk water at a contracted rate. All of the APCWD's water service connections are metered.

The District's water supply comes from a subterranean aquifer resulting from precipitation and mountain snow buildup. The District maintains five wells with one having a capacity of 91 gallons per minute, one having a capacity of 84 gallons per minute, one having a capacity of 33 gallons per minute, one having a capacity of 21 gallons per minute and one having a capacity of 13 gallons per minute. Water is pumped from the wells into a treatment facility, which removes natural impurities from the water. There are four storage tanks and 12 miles of pipeline. The District services 955 active residential and commercial water connections as well as one wholesale water connection to Running Springs Water District.

Water District

Arrowbear Park County Water District (APCWD) was formed in 1953 under Division 12 of the California Water Code to provide water, sewer collection and fire protection services to the residents and visitors of Arrowbear Lake. APCWD is a special district governed by a locally elected five-member Board of Directors. The District's day-to-day operations are conducted under the direction of General Manager Norman Huff. APCWD provides water services to 955 connections.

Project Description¹ Current Production and Consumption



Based on recent data graphed above (in CF), the water system sees the highest water usage from July through October. Water usage begins to decline from November to March. However, January 2021 saw an unusual spike in usage. Significant, seasonal fluctuations are not to an extent that would impact rate structure design. The lowest water usage occurs in February and March for all meter sizes.

Current Rates

The APCWD currently charges its customers the following rates:

Service Type	Meter Size	Initial Allotment (CF)	Monthly Service Charge	Usage Rate (\$/CF)
Residential	3/4" - 2"	600	\$30.50	\$ 0.07
Commercial	3/4"	600	\$30.50	\$ 0.07
Park	2"	0	0	\$ 0.07

There are no tiers currently implemented, aside from the initial allotment amounts listed in the table above.

The APCWD water rates are all based on in-district customers, the type of service connection and how much water customers use. Domestic water use is measured and billed in units of single cubic feet (CF). One CF is equal to 7.48 gallons. The APWCD has a surplus water purchase agreement with Running Springs Water District (RSWD) in which APWCD agrees to sell water to RSWD at a negotiated reduced rate. From this, AWPCD projects a consistent and reliable revenue stream of approximately \$60,000 annually to offset operating costs.

Additional Fees

In addition to monthly water rates, the APCWD also currently has the following fees:

Disconnect for Non-Payment	\$30.00
Lien	\$123.00
Returned Check	\$30.00
Tractor Fee for Cust. Convenience Turn-On/Off	\$75.00
After-Hours Turn-On/Off for Cust. Convenience	\$50.00
Late Charge	\$1.50 + 1.5% of outstanding charges
New Service Connection	\$3450.00

Proposed Rate Structure

To comply with California Proposition 218, RCAC recommends APWCD apply the uniform usage rate to all water usage with no usage allowance included in the base rate. Based on the uniform block rates, the residential and commercial customers have the same water rates. We propose a base rate dependent on meter size and a single usage rate per each CF. The usage rate will be applied to all treated water sold within the District.

2. Guiding Principles of this Rate Study

Sustainability

Water rates should cover the costs to the water enterprise to allow it to provide water services for the foreseeable future.

Fair

Water rates should be fair to all rate payers. No single rate payer or group of rate payers should be singled out for different rates. Therefore, the proposed rates do not make any distinction between domestic, commercial, or agricultural users. The rates are the same for all.

The District should not charge more for water than the cost to provide the water. However, the costs should include operations, repairs, reserves, and all other costs related to the production, treatment, and distribution of potable water now and in the foreseeable future.

Conservation

Water rates should promote conservation. Water is a limited resource and should be conserved.

Justifiable

Water rates must be based on the actual financial needs of the water enterprise. Revenue generated from water rates cannot be used for anything but to pay for the costs of procuring, treating, and distributing water within its service area, plus any administrative costs and reserves.

Therefore, the proposed rates are based on the APCWD's Budget, Capital Replacement Program, and a sales forecast.

Purpose of this study

The purpose of this study is to provide the APWCD with recommended rates. The water system must be able to build reserves to cover the inevitable need to replace all components of the operation.

Board Decision

While this document recommends certain rates, the ultimate decision rests with the APCWD's Board. However, the Board has a fiduciary responsibility to set the rates at such a level that the District's water enterprise will be able to continue to operate in the future, including providing funds to replace all parts of the system as they wear out.

Disclaimer

The recommendations contained in this rate study are based on financial information provided to RCAC by APCWD. Although every effort was made to ensure the reliability of this information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein.

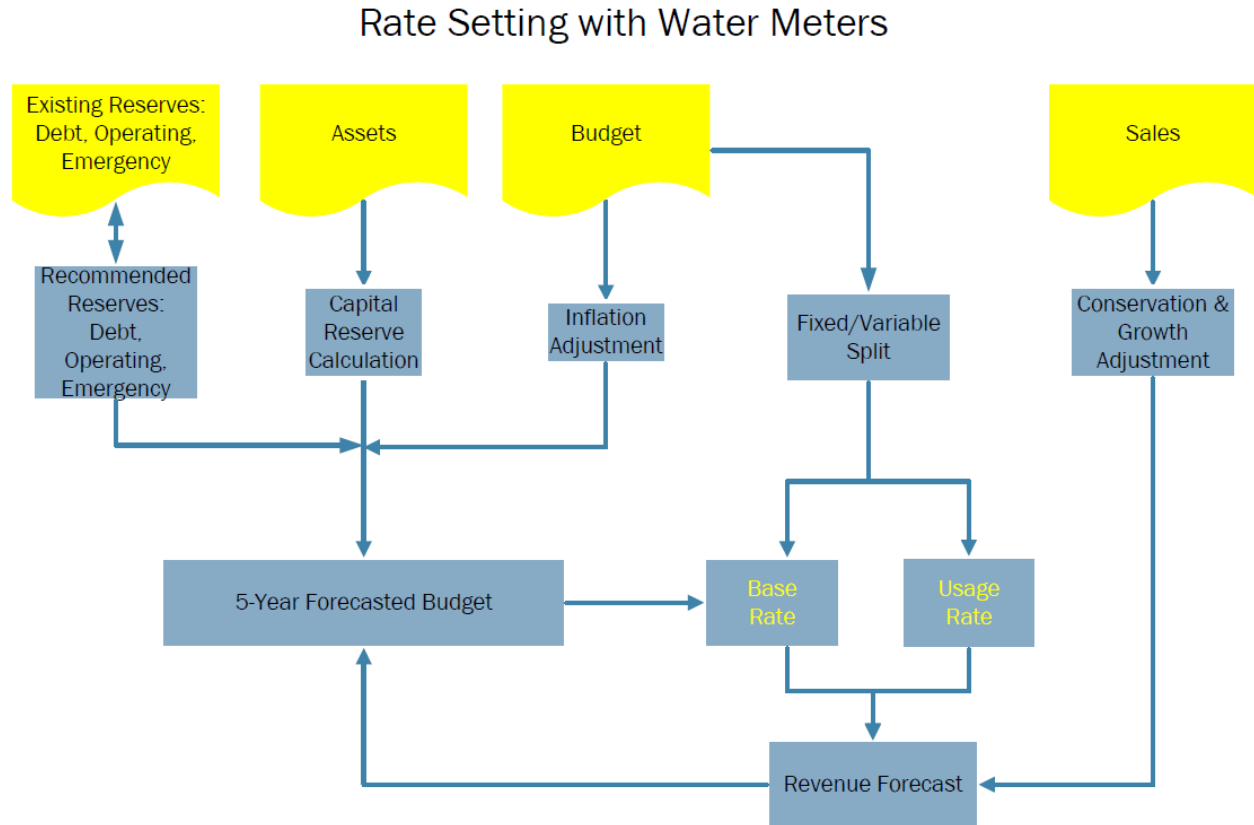
Any opinions, findings, and conclusions or recommendations expressed in this material are solely the responsibility of the authors and do not necessarily represent the official views of SWRCB, who funded this rate study.

For accounting advice, a CPA should be consulted. For legal advice, the District should seek the advice of an attorney.

3. Rate Study Process

The figure² below explains the process of setting rates.

We begin with the list of all capitalized assets, the current budget and the current water use history as provided by the administration from the APCWD.



Existing reserves are compared to target reserves and from the list of assets the required reserves are calculated (Section 4 of this report) and fed into a five-year Budget projection (Section 5).

The budget is adjusted for inflation, estimated to be 3 percent per year.

The number of customers is adjusted for unpaying customers, undeveloped lots and future water conservation and community growth reasonably expected to occur in the next five years.

² All yellow fields and cells in the figures and exhibits of this report are based on external data. All blue fields or cells are calculated.

The budgeted expenses are divided between fixed and variable costs, which lead to a recommended base rate and usage charges.

The calculated rates are then applied to the forecasted sales to arrive at a revenue estimate.

This process was repeated several times to arrive at an acceptable rate that would balance the budget by the fifth year.

4. Reserve Funding

As of June 30, 2021, the APCWD water enterprise held \$415,161 in unrestricted cash and cash equivalents.

AWWA standards recommend a review of four types of reserves:

1. Debt Reserve: APCWD currently has no debt.
2. Operating Reserve: Operating reserves are established to provide the District's water enterprise with the ability to withstand short-term cash-flow fluctuations. The industry standard calls for 1.5 times the operating expenses during a billing cycle. The target operating reserve for the District's water enterprise is \$61,078 but the District only has \$48,000 in operating reserves. Therefore \$2,616 will be added to the budget annually for the next five years to accumulate the shortage (\$13,078).
3. Emergency Reserve: Emergency reserves are intended to help utilities deal with short-term emergencies, such as mainline breaks or pump failures. An emergency reserve is intended to fund the immediate replacement or reconstruction of the system's single most critical asset.
4. The emergency reserve should be set at the replacement cost of the most expensive component that could fail. In the case of the APCWD, it was determined that \$75,000 in emergency reserves would be sufficient. APCWD currently has \$71,452 dedicated to emergency reserves. Therefore \$710 will be added to the budget annually for the next five years to accumulate the shortage (\$3,548).
5. Capital Replacement Reserve (CRP): This reserve is strictly to be used to fund the District's water enterprise portion of any replacement of capital assets that are worn out. The APCWD currently has \$295,729 saved in capital reserves for the water system.

The tables below show the existing reserves and the reserve targets for each of the four reserve categories. The amount of the shortfall in operating reserve is transferred to the budget so the shortfall can be funded over the next five years.

The benefit of splitting the reserves into four types are:

1. These reserves have different time horizons: The debt reserve may be invested for an extended period—as long as the debt is on the books. Operating reserves and emergency reserves should be readily available, while CRP funds can be invested with different maturity dates to coincide with the planned need for capital replacements.
2. These four different reserves should require different policies related to:
 - a. Investment terms and vehicles
 - b. What the funds can be used for
 - c. Who can access the funds
 - d. What procedure has to be followed to access the funds

RCAC recommends that the APCWD develop an investment policy.

Existing Reserves	Amount	
Debt Reserve	\$0	As per lending agreement
Operating Reserve	\$48,000	To be placed in Checking Account
Emergency Reserve	\$71,452	To be placed in Savings Account
Capital Reserve	\$295,729	Often in CD or investment account
Total	\$415,181	

Reserve Targets	Amount	Annual Reserve Addition	Excess funds to be transferred to CRP	Goal
Debt Reserve	\$0	\$0	\$0	As per lending agreement(s)
Operating Reserve	\$61,078	\$2,616	\$0	45 days of expenses
Emergency Reserve	\$75,000	\$710	\$0	Critical equipment replacement cost
Capital Reserve	\$295,729 (Currently available for CRP)	\$321,095		

5. Capital Replacement Program

Source of the Data

The data in the Capital Replacement Program (CRP) comes from the data supplied by the District and AWWA standards. It is shown on attached Exhibit 1.

The list of the components, their installation date, and their original costs were all supplied or estimated by the District.

The normal estimated life is based on AWWA or industry standards.

The estimated remaining life is based on the best judgment of the operator and RCAC.

Sources of Funding

Funding for the replacement of components can only come from cash saved by the District, a grant, or a loan.

The possibility of the APCWD obtaining a grant in the near future is moderate, but due to changing funding streams, access to grants may change in the future.

With the current funding information, the APCWD has a moderate chance of qualifying for grants but will also need out-of-pocket cash reserves. It is assumed that the replacement of smaller capital assets valued less than \$100,000 will be 100 percent funded with cash and the replacement of larger capital assets will be funded with a combination of cash, grants and loans as shown in the table below.

Default Funding of CRP

		Cash	Grant	Loan
\$0	\$10,000	100%	0%	0%
\$10,001	\$100,000	100%	0%	0%
\$100,001	\$500,000	20%	25%	55%
\$500,001	\$9,999,999	20%	50%	30%

Capital Replacement Program (CRP) Description

The CRP provides us with details of the reserves needed to replace the existing, funded, and future unfunded capital assets. The total line of the CRP table (Exhibit 1, \$321,095) is the amount the APCWD must put aside each year to be able to replace the assets listed when they reach the end of their life expectancy. This amount varies every year when old equipment is replaced and when new equipment is installed.

There are no current capital projects, but should additional projects be planned, those assets will start deteriorating at that time, hence the APCWD will need to plan for their future replacement.

Alternative

If the water system decides not to fund the annual capital reserve requirement, the system will have to obtain these amounts from other sources, or from steeper rate increases in future years. The system cannot count on the future generosity of the state or other government sources to provide any substantial grants.

It will require an effort of the APCWD to obtain these grants and/or loans. The amount of grants and/or loans obtained for future projects has a very substantial impact on water rates. Therefore, this study recommends a new rate study every five years.

6. Budget

Source

All expenses shown in Exhibit 2 (5-Year Budget sheet) were provided by the APCWD as its 2022 approved budget.

The Capital Replacement Program amount comes from the Reserves sheet. (Exhibit 1)

The cash revenue shown is a calculated number based on:

- The water rates selected
- The number of paying customers
- An annual inflation factor of 3 percent
- A conservation factor and growth factor
- Water usage

Sales Adjustments

Higher water rates cause a reduction in the quantity of water sold as customers adjust their consumption to the new rates.

Sales adjustment over Base year	Year 1	Year 2	Year 3	Year 4	Year 5
Conservation Factor	-5%	-3%	-3%	-2%	-2%
Growth Factor	0%	0%	0%	0%	0%
Total Sales Adjustment	-5%	-3%	-3%	-2%	-2%

With a change in base rates and usage rates, it can be expected that customers will conserve water after seeing their new bills. It is estimated that after having the increased rates for five years, the customers will have returned to their water use habits they had prior to the rate change.

The APCWD area is not expecting significant growth of new connections in the next five years. The growth factor is zero percent growth over the base year.

APCWD anticipates a very low percentage of write-offs of uncollectible receivables. An annual percentage of 0.2 percent of total billings was used as the assumed amount of uncollectible billings.

Alternatives

If the District does not fund its budget by setting appropriate water rates, it does not mean that the District cannot pay its bills. It simply means that the District's water enterprise is not providing for future replacement of the capital assets and will not be able to guarantee the continuing operation of the water system.

The District has a fiduciary responsibility to set rates to a level where the District's water enterprise can continue to operate and provide clean water for the foreseeable future.

7. Fixed Versus Variable Expenses

Exhibit 3 shows the split between Fixed and Variable Expenses.

Source

The data comes from the budget as shown in Exhibit 2.

Description

Some expenses vary by the volume of water sold. For example, electricity costs will go up when more water is processed.

Other expenses are fixed. For example, insurance costs remain the same whether water is sold or not. Percentages are used to estimate the ratio of fixed to variable because many expenses are somewhere in between.

In APCWD's case, 87 percent of all expenses are fixed and only 13 percent are variable. It is not unusual for smaller water systems to have a high percentage of fixed costs.

Alternatives

While fixed expenses should be covered by the base rate (the same every month), variable costs should be covered by the usage rate (based on the quantity sold). Should fixed costs not be recovered by the base rate, but by variable income (usage charges), there may be seasonal shortfalls in cash-flow of the District's water enterprise, and the District will have to dip into its operating reserves.

The split between fixed and variable expenses is not germane to the overall balancing of the budget. It is only relevant to cover seasonal cash flows of the District's water enterprise. The impact of the new rates on seasonal cash flows is shown on page 22.

8. Rate Calculation

Theoretical Base Rate Calculation

In theory, fixed expenses should be covered by fixed income (base charges) and variable expenses should be covered by variable income (usage charges). This is accomplished by using the total fixed cost and allocating it between total customers, based on the customer's potential demand as approximated by meter size.

The theoretical base rate is calculated by determining the maximum demand for each meter according to the AWWA Safe Maximum Operating Capacity, multiplying by the number of meters by that size in the system, and calculating the percentage of total fixed costs that are allocated by meter size. This calculation results in the following:

Meter Size in "	Decimal Size	Number of Meters	AWWA Safe Maximum Operating Cap. (GPM)	Max Demand (GPM)	% Of Max Demand by Meter Size	Total Fixed Costs Allocated by Meter Size	Theoretical Base Rate by Meter Size per M
A	B	C	D	E= D * C	F= % of total	G= % * total	H=G/C/12
3/4"	0.750	943	30	28,290	91.97%	\$708,348	\$62.27
1"	1.000	5	50	250	.81%	\$6,260	\$103.79
1.5"	1.500	1	100	100	.33%	\$2,504	\$207.58
2"	2.000	7	160	1,120	3.64%	\$28,043	\$332.12
6"	6.000	1	1,000	1,000	3.25%	\$25,039	\$2,075.77
Total					100%	\$770,194	

Notes:

1. Safe maximum meter capacity for 5/8" through 2" meters (column D) based on AWWA C700 displacement meters.
2. Safe maximum meter capacity for 3" through 8" meters based on AWWA C702 compound meters.

Base Rate Calculation – Proposed Rate Adjustment

Because full recovery of all the fixed costs in the base rate created a rate structure the Board felt would be too onerous for the community, the following Proposed Rate Adjustment was accepted by the Board. In this option, a slower pace for recovering costs was adopted. After the first year, annual increases of 10 percent for base rates and 2.5 percent for usage rates will be necessary to fully recover all costs. Full funding of reserves will not be possible in the first three years. The reserve funding will be recovered in the final two years.

Meter Size	Existing Base Rate Residential/ Commercial	Proposed Base Charge for Year 1	Year 2	Year 3	Year 4	Year 5
0.750	\$30.50	\$ 33.55	\$ 36.91	\$ 40.60	\$ 44.66	\$ 49.12
1.000	\$30.50	\$ 71.05	\$ 78.16	\$ 85.97	\$ 94.57	\$ 104.02
1.500	\$30.50	\$ 142.10	\$ 156.31	\$ 171.94.	\$ 189.14	\$ 208.05
2.000	\$30.50	\$ 227.36	\$ 250.10	\$ 275.11	\$ 302.62	\$ 332.88
6.000	\$30.50	\$ 376.00	\$413.60	\$ 454.96	\$ 500.46	\$550.40
Usage Rate per Cubic Foot		\$ 0.0500	\$ 0.0513	\$ 0.0525	\$ 0.0538	\$ 0.0552

In this Rate Adjustment Option, less than 60 percent of the fixed expenses are covered by the base rate and the remaining is funded by the usage charge. This would be followed by an annual increase of 10 percent to the base rates and 2.5 percent to the usage charges starting the second year.

Customers with large water meters could potentially draw a substantial volume of water (see the table on page 20.) Therefore, they should pay a proportional share of the fixed costs of the system

Usage Rate Calculation

The usage rate for the APCWD is calculated on the cubic foot basis. No usage will be included in the base rates.

While relying heavily on the usage rate to balance the budget, it provides a little more control to the property owner by allowing them to reap the financial benefits of conserving water.

This benefit has been taken into consideration through the conservation factors applied to the estimated future quantities of water sold.

	Year 1	Year 2	Year 3	Year 4	Year 5
Conservation Factor	-5%	-3%	-3%	-2%	-2%

Based on the uniform block rate, the commercial and residential customers have the same rate and annual rate increase.

In the Proposed Rate Adjustment, the new usage charge per one (1) CF is \$0.05 for all customers.

All Meter Sizes	Proposed Usage Charge for Year 1	Year 2	Year 3	Year 4	Year 5
Usage Rate per one (1) CF	\$ 0.0500	\$ 0.0513	\$ 0.0525	\$ 0.0538	\$ 0.0552

Seasonal Cash Flow and Inflation

By setting the base rate at less than 100 percent of fixed operational costs and relying on usage charges to balance the budget, seasonal cash flow issues may appear, particularly in the event of drought restrictions.

A gradual annual increase of 10 percent to the base rate and 2.5 percent for the usage rate is recommended to reduce the need for drastic rate changes in the future. This will also ensure the rates are keeping up with increasing costs within the system.

Estimated Profit and Loss with New Proposed Rates

By setting the base rate and the usage rate, the model calculates the revenue generated by this rate. It compares revenue against expenses (as shown in the budget) and calculates the estimated profit/loss. Also, the model estimates annual contributions to the reserves. As equipment is replaced, the CIP reserve funding decreases.

Rate Adjustment Option #2	Year 1	Year 2	Year 3	Year 4	Year 5
Rates Revenue	\$608,179	\$649,933	\$699,718	\$752,033	\$811,412
Stand-by Fees	\$36,000	\$36,000	\$36,000	\$36,000	\$36,000
Bulk Water Sales	\$56,650	\$58,350	\$60,100	\$61,903	\$63,760
Late Fees	\$5,150	\$5,305	\$5,464	\$5,628	\$5,796
Less: Uncollectible Receivables	(\$1,216)	(\$1,300)	(\$1,399)	(\$1,504)	(\$1,623)
Adjusted Rates Revenue	\$704,762	\$748,287	\$799,882	\$854,059	\$915,346
Operating Costs	\$488,627	\$503,286	\$518,384	\$533,936	\$549,954
Operating Reserves	\$2,616	\$2,616	\$2,616	\$2,616	\$2,616
Debt Reserves	\$0	\$0	\$0	\$0	\$0
Emergency Reserves	\$710	\$710	\$710	\$710	\$710
CIP Reserves	\$321,095	\$282,972	\$281,069	\$266,830	\$264,933
Total Costs of Service	\$813,048	\$789,583	\$802,779	\$804,092	\$818,212
Net Profit/(Loss) from Operations	(\$108,286)	(\$41,296)	(\$2,897)	\$49,967	\$97,134
Non-Operating Revenue/(Expense)					
Miscellaneous Revenue	\$1,236	\$1,273	\$1,311	\$1,351	\$1,391
Grant Revenue	\$515	\$530	\$546	\$563	\$580
Total Non-Operating Revenue	\$1,751	\$1,804	\$1,858	\$1,913	\$1,971
Net Gain/(Loss)	(\$106,535)	(\$39,493)	(\$1,039)	\$51,881	\$99,105

A negative red number means the rates were not adequate to generate income that covers all expenses and reserve requirements. A positive number means rates did cover all expenses, including reserves. The table above shows the proposed rates balance the budget and allow for reserve account funding after the third year.

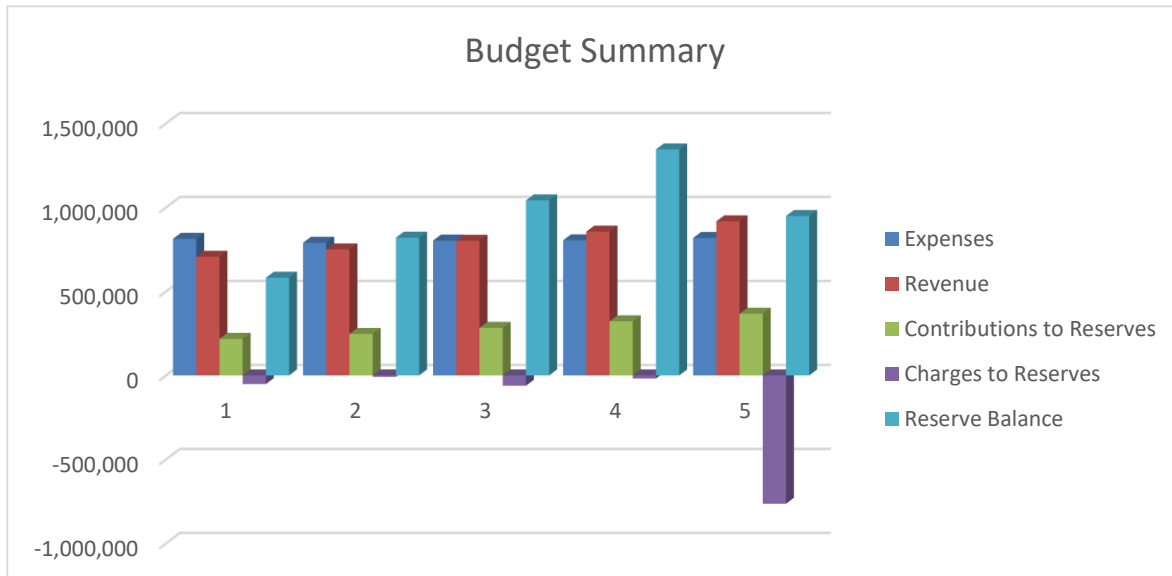
Affordability Index

		Year 1	Year 2	Year 3	Year 4	Year 5
Affordability Index						
MHI of	\$56,591	1.05%	1.13%	1.21%	1.31%	1.41%

According to American Community Survey estimates for 2019, the median household income of the APCWD’s service area is \$56,591. The “affordability index” was calculated by dividing the average annual water bill of all residences by the MHI.

Any number below 4 percent indicates an “affordable” rate and any number below 1.5 percent is considered too low, and any replacement project may not be eligible for certain grants and low interest loans.

The proposed rates fall within the affordability range despite the proposed increases.



Impacts of the Proposed Rate Adjustment

- Expenses (darker blue bar) show a slight increase each year due to inflation.
- Revenue (red bar) climbs each year starting the first year as the APCWD continues to contribute a fixed revenue to the existing CRP for asset replacement.
- Contributions to reserves (green bar) show a healthy contribution to capital reserves.
- Charges to reserves (purple bar) are the replacement costs of certain assets, according to the CRP.
- The reserve balance³ (light blue bar) is the amount available to replace the system in future years. The reserve balance shows an increase in reserve balance until year five, when a large amount of the equipment will be due for replacement and/or improvements.

The purple bars indicate the need to dip into your reserves. They are a good indication of the maturities of the investments of your CRP.

A new rate study should be conducted in five years or when a new grant or loan is obtained.

³ Total Reserves (Capital Replacement Reserves, Emergency Reserves, Debt Reserves, etc.)

Estimated monthly bill – Proposed Rate Adjustment

Average Monthly Bill by Meter Size

Meter Size	Meter Size	Current	Year 1	Year 2	Year 3	Year 4	Year 5
0.750	3/4"	\$30.50	\$33.55	\$36.91	\$40.60	\$44.66	\$49.12
1.000	1"	\$30.50	\$71.05	\$78.16	\$85.97	\$94.57	\$104.02
1.500	1.5"	\$30.50	\$142.10	\$156.31	\$171.94	\$189.14	\$208.05
2.000	2"	\$30.50	\$227.36	\$250.10	\$275.11	302.62	\$332.88
4.000	6"	\$30.50	\$376.00	\$413.60	\$454.96	\$500.46	\$550.50

The current APCWD rate structure inadvertently results in connections with small meter sizes supplementing the rates of connections with larger meter sizes and those who use less than the currently allotted 600 cubic feet per month are charged the same as those who use the full 600 cubic feet.

In order to comply with Proposition 218's requirements, water utilities are moving away from this type of cost allocation to a fairer structure that charges a base rate that covers basic costs plus a water usage rate charge based on the amount of water a customer actually uses. Additionally, when water resources are at a premium, this proposed rate structure also provides an incentive for those who conserve and use less.

9. Proposition 218

California approved Proposition 218 in 1996 requiring agencies to adopt property fees and charges in accordance with a defined public process found in article XIII D or by associated court decision. Water and water rates are user fees under the definition and must meet the following requirements:

- Revenues derived from the fee or charge must not exceed the funds required to provide the property-related service.
- Revenue from the fee or charge must not be used for any purpose other than that for which the fee or charge is imposed.
- No fee or charge may be imposed for general governmental services, such as police, fire, ambulance, or libraries, where the service is available to the public in substantially the same manner as it is to property owners.
- The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- The fee or charge may not be imposed for service, unless the service is used by, or immediately available to, the owner of the property in question.

Written notice should be given to both the record owners and customers within the area subject to the fee or charge. The notice shall include the following:

- The formula or schedule of charges by which the property owner or customer can easily calculate their own potential charge.
- The basis upon which the amount of the proposed fee or charge is to be imposed on each parcel. An explanation of the costs which the proposed fee will cover and how the costs are allocated among property owners.
- Date, time, and location of a public hearing on the rate adjustment. The public hearing must occur 45 or more days after the mailing of the notice.

California's Proposition 218 provides that a customer of APCWD or owner of record of a parcel or parcels subject to the proposed rate increases may submit a protest against any or all of the proposed rate increases by filing a written protest with APCWD at or before the time the public hearing has concluded. Only one protest per parcel is counted. If written protests are filed by a majority of the affected parcels, the proposed rate increases will not be imposed.

10. Conclusions and Recommendations

Key points to remember with any rate adjustment:

- Successful utilities are those that strive to be transparent. In day-to-day operations, APCWD should strive to promote its services (highlights and the low points) and continuously educate residents on why it is necessary to raise and adjust rates.
- The ability of the recommended rate structure to generate adequate revenue will depend on maintaining a vigorous collection and shut-off policy to keep delinquent accounts at a minimum.
- In order to achieve and maintain long-term viability, APCWD should review its rates annually, or no less than a minimum of every two years. Keeping track of customer seasonal and annual water demands will help determine operational needs, budget forecasts and rate adjustments.
- APCWD should implement the first year rate adjustment on July 1, 2022, and subsequent annual adjustments on July 1 to provide sufficient revenues for funding future operations and to adequately fund reserves.
- APCWD should establish policies for reserve accounts as recommended above.
- APCWD should designate reserves on its financial statements.
- APCWD should maintain and report balance sheet activities according to individual enterprise.
- CIP reserves should be moved to and maintained in the highest interest bearing accounts available to offset inflation unless the cost of doing so would be more than the interest earned on the account.
- RCAC recommends APCWD create a list of all customer charges related to the water enterprise that is clear and easy for the community to understand.

11. Exhibits

1. Capital Replacement Program
2. 5-Year Forecasted Budget
3. Fixed vs variable expenses
4. Prop 1 Text

Capital Replacement Program														Exhibit 1	
Year Acquired	Unit Cost (Historic, Current or Future)	Cost Type (H, C, F)	% Belonging to Water	Estimated Historic Cost (Water only)	Normal Estimated Life	Current Age	Estimated Current Cost	Planned Remaining Life	Estimated Remaining Life	Estimated Future Cost	Fund with Cash	Fund with Grant	Fund with Loan	Existing Reserves	Annual Reserve Required
2015	\$ 23,547	H	65%	\$15,305	20	7	17,581	13	14	27,643	100%	0%	0%	3,322	1,674
2019	\$ 632	H	65%	\$411	20	3	436	17	18	742	100%	0%	0%	82	Not Cap.
2017	2,800	H	65%	\$1,820	15	5	2,009	10	11	2,836	100%	0%	0%	380	217
2017	85,500	H	65%	\$55,575	15	5	61,359	10	11	86,584	100%	0%	0%	11,593	6,623
2014	26,123	H	65%	\$16,980	15	8	19,895	7	8	26,454	100%	0%	0%	3,759	2,779
2014	25,922	H	65%	\$16,849	15	8	19,742	7	8	26,251	100%	0%	0%	3,730	2,758
2006	18,150	H	65%	\$11,798	15	16	16,195	-1	1	18,380	100%	0%	0%	3,060	15,320
2018	26,000	H	65%	\$16,900	15	4	18,293	11	12	26,330	100%	0%	0%	3,456	1,846
2020	11,000	H	55%	\$6,050	20	2	6,294	18	19	10,927	100%	0%	0%	1,189	487
2003	500	H	65%	\$325	20	19	473	1	2	587	100%	0%	0%	89	Not Cap.
2020	900	H	65%	\$585	15	2	609	13	14	911	100%	0%	0%	115	Not Cap.
1990	1,000	H	65%	\$650	20	32	1,225	-12	2	1,174	100%	0%	0%	231	Not Cap.
2014	3,868	H	65%	\$2,514	15	8	2,946	7	8	3,917	100%	0%	0%	557	412
2007	78,000	H	65%	\$50,700	20	15	68,236	5	6	91,570	100%	0%	0%	12,892	12,923
2014	2,495	H	65%	\$1,622	20	8	1,900	12	13	2,929	100%	0%	0%	359	191
2014	3,814	H	100%	\$3,814	15	8	4,469	7	8	5,942	100%	0%	0%	844	624
2019	3,300	H	100%	\$3,300	15	3	3,502	12	13	5,141	100%	0%	0%	662	333
2010	9,000	H	100%	\$9,000	12	12	11,414	0	1	12,832	100%	0%	0%	2,157	10,675
2008	39,358	H	100%	\$39,358	40	14	51,932	26	27	128,387	20%	25%	55%	1,962	818
2004	34,000	H	100%	\$34,000	20	18	48,560	2	3	61,408	100%	0%	0%	9,175	17,309
2019	450	H	100%	\$450	10	3	478	7	8	605	100%	0%	0%	90	Not Cap.
1989	66,135	H	100%	\$66,135	40	33	127,127	7	8	215,735	20%	25%	55%	4,804	4,699
2012	112,657	H	100%	\$112,657	40	10	137,328	30	31	367,491	20%	25%	55%	5,189	2,030
1989	65,000	H	100%	\$65,000	30	33	124,945	-3	5	157,772	20%	25%	55%	4,721	5,304
2010	65,000	H	100%	\$65,000	30	12	82,436	18	19	157,772	20%	25%	55%	3,115	1,423
1954	52,000	H	100%	\$52,000	80	68	199,901	12	13	553,326	20%	50%	30%	7,554	7,679
1963	43,000	H	100%	\$43,000	80	59	138,318	21	22	457,558	20%	25%	55%	5,227	3,708
1996	150,000	H	100%	\$150,000	80	26	251,013	54	55	1,596,134	20%	50%	30%	9,485	4,885
1977	150,000	H	100%	\$150,000	80	45	365,678	35	36	1,596,134	20%	50%	30%	13,818	7,732
2000	6,200	H	100%	\$6,200	30	22	9,585	8	9	15,049	100%	0%	0%	1,811	1,438
2020	86,000	H	100%	\$86,000	15	2	89,474	13	14	133,985	20%	25%	55%	3,381	1,611
1997	4,603	H	100%	\$4,603	10	25	7,552	-15	1	6,186	100%	0%	0%	1,427	4,759
2012	10,500	H	100%	\$10,500	10	10	12,799	0	1	14,111	100%	0%	0%	2,418	11,693
2009	8,000	H	100%	\$8,000	10	13	10,349	-3	4	10,751	100%	0%	0%	1,955	2,179
2009	5,754	H	100%	\$5,754	10	13	7,443	-3	4	7,733	100%	0%	0%	1,406	1,567
2003	5,000	H	100%	\$5,000	10	19	7,284	-9	2	6,720	100%	0%	0%	1,376	2,663
1981	\$ 25,000	H	100%	\$25,000	70	41	56,305	29	30	197,946	20%	25%	55%	2,128	1,156
1984	\$ 75,000	H	100%	\$75,000	70	38	159,172	32	33	593,837	20%	50%	30%	6,015	3,137
1981	\$ 16,000	H	100%	\$16,000	70	41	36,035	29	30	126,685	20%	25%	55%	1,362	740
1987	\$ 8,000	H	100%	\$8,000	70	35	15,999	35	36	63,343	100%	0%	0%	3,023	1,526
1990	\$ 28,400	H	100%	\$28,400	70	32	53,521	38	39	224,866	20%	25%	55%	2,022	995
1991	\$ 777,000	H	100%	\$777,000	70	31	1,435,577	39	40	6,152,148	20%	50%	30%	54,246	26,508
2005	\$ 80,900	H	100%	\$80,900	70	17	113,280	53	54	640,552	20%	50%	30%	4,280	1,993
2018	\$ 418,155	H	100%	\$418,155	70	4	452,624	66	67	3,310,877	20%	50%	30%	17,103	8,089
2021	\$ 352,423	H	100%	\$352,423	70	1	359,471	69	70	2,790,423	20%	50%	30%	13,583	6,484
1956	\$ 450,000	H	100%	\$450,000	70	66	1,662,738	4	5	3,563,020	20%	50%	30%	62,830	128,537
1956	\$ 2,500	H	100%	\$2,500	70	66	9,237	4	5	19,795	100%	0%	0%	1,745	3,570
				\$3,351,233			6,282,741			23,521,496	22%	47%	32%	295,729	321,095

Arrowbear Park County Water District			Inflation Factor	Inflation Factor	Inflation Factor	Inflation Factor	Exhibit 2
5 Year Forecasted Budget			(3%):	(3%):	(3%):	(3%):	(3%):
	2021	2022	2023	2024	2025	2026	2027
Operating Revenue	Actuals	Budget	Projected	Projected	Projected	Projected	Projected
Sales Revenue (Base + Usage)	\$ 434,296	\$ 440,000	\$ 608,179	\$ 649,933	\$ 699,718	\$ 752,033	\$ 811,412
Stand-by Fees	\$ 33,778	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000
Bulk Sales	\$ 69,306	\$ 55,000	\$ 56,650	\$ 58,350	\$ 60,100	\$ 61,903	\$ 63,760
Fees Late/NSF	\$ 5,103	\$ 5,000	\$ 5,150	\$ 5,305	\$ 5,464	\$ 5,628	\$ 5,796
Uncollectable Receivables			\$ (1,216)	\$ (1,300)	\$ (1,399)	\$ (1,504)	\$ (1,623)
Total Operating Revenue	\$ 542,483	\$ 536,000	\$ 704,762	\$ 748,287	\$ 799,882	\$ 854,059	\$ 915,346
	2021	2022	2023	2024	2025	2026	2027
OPERATIONS & MAINTENANCE EXPENSES							
Salaries	\$ 229,436	\$ 217,051.67	223,563	230,270	237,178	244,294	251,622
Payroll Taxes	\$ 18,018	\$ 17,201.86	17,718	18,249	18,797	19,361	19,942
Benefits Retirement	\$ 22,404	\$ 18,826.53	19,391	19,973	20,572	21,189	21,825
Benefits Dental Insurance	\$ 3,788	\$ 4,614.34	4,753	4,895	5,042	5,193	5,349
Benefits Health Ins Active	\$ 52,116	\$ 46,470.60	47,865	49,301	50,780	52,303	53,872
Benefits Health Ins Retired	\$ 19,362	\$ 32,284.81	33,253	34,251	35,278	36,337	37,427
Benefits OPEB	\$ 7,500	\$ 7,500.00	7,725	7,957	8,195	8,441	8,695
Training	\$ 82	\$ 500.00	515	530	546	563	580
Director Fees	\$ 7,823	\$ 7,809.30	8,044	8,285	8,533	8,789	9,053
Director Training Conference	\$ -	\$ 110.00	113	117	120	124	128
Board Misc	\$ 560	\$ 176.00	181	187	192	198	204
Prof Svcs Legal	\$ 92	\$ 1,650.00	1,700	1,750	1,803	1,857	1,913
Prof Svcs Accounting	\$ 1,550	\$ 1,540.00	1,586	1,634	1,683	1,733	1,785
Prof Svcs Engineering	\$ -	\$ 250.00	258	265	273	281	290
Prof Svcs Audit	\$ 11,209	\$ 12,920.00	13,308	13,707	14,118	14,542	14,978
Prof Svcs Dues Membership Fees	\$ 4,677	\$ 5,000.00	5,150	5,305	5,464	5,628	5,796
Prof Svcs Bank Fees Charges	\$ 5,195	\$ 5,340.00	5,500	5,665	5,835	6,010	6,191
Prof Svcs Regulatory Fees	\$ 6,018	\$ 5,400.00	5,562	5,729	5,901	6,078	6,260
Prof Svcs Testing Lab	\$ 12,746	\$ 5,000.00	5,150	5,305	5,464	5,628	5,796
Prof Svcs Computer Network	\$ 477	\$ 440.00	453	467	481	495	510
Prof Svcs Misc	\$ 1,481	\$ 990.00	1,020	1,050	1,082	1,114	1,148
Office Supplies	\$ 843	\$ 825.00	850	875	901	929	956
Office Printing	\$ 1,751	\$ 880.00	906	934	962	990	1,020
Office Postage	\$ 4,303	\$ 3,800.00	3,914	4,031	4,152	4,277	4,405
Office Software Computer	\$ 99	\$ 220.00	227	233	240	248	255
Office Equipment/Furniture	\$ 140	\$ 220.00	227	233	240	248	255
Office Misc	\$ 39	\$ 110.00	113	117	120	124	128
Insurance Workers Comp	\$ 14,143	\$ 14,136.13	14,560	14,997	15,447	15,910	16,388
Insurance Property Liability Vehicle	\$ 10,867	\$ 10,784.00	11,108	11,441	11,784	12,137	12,502
Vehicle Maintenance	\$ 2,913	\$ 3,500.00	3,605	3,713	3,825	3,939	4,057
Vehicle Fuel	\$ 5,757	\$ 4,000.00	4,120	4,244	4,371	4,502	4,637
Utility Phone Internet	\$ 3,140	\$ 2,600.00	2,678	2,758	2,841	2,926	3,014
Utility Gas	\$ 3,332	\$ 2,740.00	2,822	2,907	2,994	3,084	3,176
Utility Electric Facilities	\$ 792	\$ 770.00	793	817	841	867	893
Utility Electric Pumping	\$ 28,920	\$ 24,000.00	24,720	25,462	26,225	27,012	27,823
Utility Security	\$ 504	\$ 512.00	527	543	559	576	594
Operations Routine Maint	\$ 2,809	\$ 3,000.00	3,090	3,183	3,278	3,377	3,478
Operations Repairs	\$ 5,271	\$ 5,000.00	5,150	5,305	5,464	5,628	5,796
Operations Inspecting/Testing	\$ 187	\$ 400.00	412	424	437	450	464
Operations Facilities	\$ 1,760	\$ 1,000.00	1,030	1,061	1,093	1,126	1,159
Operations Tools Equipment	\$ 2,227	\$ 1,000.00	1,030	1,061	1,093	1,126	1,159
Operations Uniforms	\$ 829	\$ 600.00	618	637	656	675	696
Operations Safety Equipment	\$ 970	\$ 900.00	927	955	983	1,013	1,043
Water Standby Purchase	\$ 2,010	\$ 2,323.00	2,393	2,464	2,538	2,615	2,693
Total Operation and Maintenance Expenses:	498,139	474,395	488,627	503,286	518,384	533,936	549,954
GENERAL & ADMINISTRATIVE EXPENSES							
Operating Reserve Funding			\$ 2,616	\$ 2,616	\$ 2,616	\$ 2,616	\$ 2,616
Emergency Reserve Funding			\$ 710	\$ 710	\$ 710	\$ 710	\$ 710
Debt Reserve Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Replacement of Existing Capital Assets	\$ 52,454	\$ 63,305	\$ 321,095	\$ 282,972	\$ 281,069	\$ 266,830	\$ 264,933
Total General U Administrative Expenses	\$ 52,454	\$ 63,305	\$ 324,421	\$ 286,297	\$ 284,394	\$ 270,156	\$ 268,258
Total Expenses	\$ 550,593	\$ 537,700	\$ 813,048	\$ 789,583	\$ 802,779	\$ 804,092	\$ 818,212
Net Income/(Loss) From Operations	\$ (8,110)	\$ (1,700)	\$ (108,286)	\$ (41,296)	\$ (2,897)	\$ 49,967	\$ 97,134
Non-Operating Income/(Expenses):							
Interest income	\$ 4,785						
Grant Revenue	\$ 500	\$ 500	\$ 515	\$ 530	\$ 546	\$ 563	\$ 580
Other Adjustment	\$ (4,287)	\$ (800)	\$ (824)	\$ (849)	\$ (874)	\$ (900)	\$ (927)
Other Fees Charges	\$ 7,111	\$ 2,000	\$ 2,060	\$ 2,122	\$ 2,185	\$ 2,251	\$ 2,319
Total Non-Operating Income	\$ 8,109	\$ 1,700	\$ 1,751	\$ 1,804	\$ 1,858	\$ 1,913	\$ 1,971
Net Income/(Loss)	\$ (0)	\$ (0)	\$ (106,535)	\$ (39,493)	\$ (1,039)	\$ 51,881	\$ 99,105

Fixed vs Variable Expenses				Exhibit 3	
Arrowbear Park County Water District					
	5-Year Average	% Fixed	\$ Fixed	\$ Variable	
OPERATIONS & MAINTENANCE EXPENSES					
Salaries	\$ 237,385	100%	\$ 237,385	\$ -	
Payroll Taxes	\$ 18,813	100%	\$ 18,813	\$ -	
Benefits Retirement	\$ 20,590	100%	\$ 20,590	\$ -	
Benefits Dental Insurance	\$ 5,047	100%	\$ 5,047	\$ -	
Benefits Health Ins Active	\$ 50,824	100%	\$ 50,824	\$ -	
Benefits Health Ins Retired	\$ 35,309	100%	\$ 35,309	\$ -	
Benefits OPEB	\$ 8,203	100%	\$ 8,203	\$ -	
Training	\$ 547	100%	\$ 547	\$ -	
Director Fees	\$ 8,541	100%	\$ 8,541	\$ -	
Director Training Conference	\$ 120	100%	\$ 120	\$ -	
Board Misc	\$ 192	100%	\$ 192	\$ -	
Prof Svcs Legal	\$ 1,805	100%	\$ 1,805	\$ -	
Prof Svcs Accounting	\$ 1,684	100%	\$ 1,684	\$ -	
Prof Svcs Engineering	\$ 273	85%	\$ 232	\$ 41	
Prof Svcs Audit	\$ 14,130	100%	\$ 14,130	\$ -	
Prof Svcs Dues Membership Fees	\$ 5,468	100%	\$ 5,468	\$ -	
Prof Svcs Bank Fees Charges	\$ 5,840	100%	\$ 5,840	\$ -	
Prof Svcs Regulatory Fees	\$ 5,906	100%	\$ 5,906	\$ -	
Prof Svcs Testing Lab	\$ 5,468	100%	\$ 5,468	\$ -	
Prof Svcs Computer Network	\$ 481	100%	\$ 481	\$ -	
Prof Svcs Misc	\$ 1,083	100%	\$ 1,083	\$ -	
Office Supplies	\$ 902	100%	\$ 902	\$ -	
Office Printing	\$ 962	100%	\$ 962	\$ -	
Office Postage	\$ 4,156	100%	\$ 4,156	\$ -	
Office Software Computer	\$ 241	100%	\$ 241	\$ -	
Office Equipment/Furniture	\$ 241	100%	\$ 241	\$ -	
Office Misc	\$ 120	100%	\$ 120	\$ -	
Insurance Workers Comp	\$ 15,460	100%	\$ 15,460	\$ -	
Insurance Property Liability Vehicle	\$ 11,794	100%	\$ 11,794	\$ -	
Vehicle Maintenance	\$ 3,828	100%	\$ 3,828	\$ -	
Vehicle Fuel	\$ 4,375	100%	\$ 4,375	\$ -	
Utility Phone Internet	\$ 2,844	100%	\$ 2,844	\$ -	
Utility Gas	\$ 2,997	0%	\$ -	\$ 2,997	
Utility Electric Facilities	\$ 842	0%	\$ -	\$ 842	
Utility Electric Pumping	\$ 26,248	0%	\$ -	\$ 26,248	
Utility Security	\$ 560	100%	\$ 560	\$ -	
Operations Routine Maint	\$ 3,281	85%	\$ 2,789	\$ 492	
Operations Repairs	\$ 5,468	65%	\$ 3,554	\$ 1,914	
Operations Inspecting/Testing	\$ 437	100%	\$ 437	\$ -	
Operations Facilities	\$ 1,094	100%	\$ 1,094	\$ -	
Operations Tools Equipment	\$ 1,094	75%	\$ 820	\$ 273	
Operations Uniforms	\$ 656	100%	\$ 656	\$ -	
Operations Safety Equipment	\$ 984	100%	\$ 984	\$ -	
Water Standby Purchase	\$ 2,541	0%	\$ -	\$ 2,541	
Total Operation and Maintenance Expenses:	\$ 518,838		\$ 483,489	\$ 35,348	
GENERAL & ADMINISTRATIVE EXPENSES					
Operating Reserve Funding	\$ 2,616	100%	\$ 2,616	\$ -	
Emergency Reserve Funding	\$ 710	100%	\$ 710	\$ -	
Debt Reserve Funding	\$ -	100%	\$ -	\$ -	
Replacement of Existing Capital Assets	\$ 283,380	75%	\$ 212,535	\$ 70,845	
Total General and Administrative Expenses:	\$ 286,705		\$ 215,860	\$ 70,845	
Total All Expenses	\$ 805,543		\$ 699,349	\$ 106,193	
Fixed-Variable as % of all Expenses			87%	13%	

Exhibit 4

Proposition 218 Certification

CALIFORNIA CONSTITUTION
ARTICLE 13C (VOTER APPROVAL FOR LOCAL TAX LEVIES)

SECTION 1. Definitions. As used in this article:

(a) "General tax" means any tax imposed for general governmental purposes.

(b) "Local government" means any county, city, city and county, including a charter city or county, any special district, or any other local or regional governmental entity.

(c) "Special district" means an agency of the State, formed pursuant to general law or a special act, for the local performance of governmental or proprietary functions with limited geographic boundaries including, but not limited to, school districts and redevelopment agencies.

(d) "Special tax" means any tax imposed for specific purposes, including a tax imposed for specific purposes, which is placed into a general fund.

CALIFORNIA CONSTITUTION
ARTICLE 13C (VOTER APPROVAL FOR LOCAL TAX LEVIES)

SEC. 2. Local Government Tax Limitation. Notwithstanding any other provision of this Constitution:

(a) All taxes imposed by any local government shall be deemed to be either general taxes or special taxes. Special purpose districts or agencies, including school districts, shall have no power to levy general taxes.

(b) No local government may impose, extend, or increase any general tax unless and until that tax is submitted to the electorate and approved by a majority vote. A general tax shall not be deemed to have been increased if it is imposed at a rate not higher than the maximum rate so approved. The election required by this subdivision shall be consolidated with a regularly scheduled general election for members of the governing body of the local government, except in cases of emergency declared by a unanimous vote of the governing body.

(c) Any general tax imposed, extended, or increased, without voter approval, by any local government on or after January 1, 1995, and prior to the effective date of this article, shall continue to be imposed only if approved by a majority vote of the voters voting in an election on the issue of the imposition, which election shall be held within two years of the effective date of this article and in compliance with subdivision (b).

(d) No local government may impose, extend, or increase any special tax unless and until that tax is submitted to the electorate and approved by a two-thirds vote. A special tax shall not be deemed to have been increased if it is imposed at a rate not higher than the maximum rate so approved.

CALIFORNIA CONSTITUTION
ARTICLE 13C (VOTER APPROVAL FOR LOCAL TAX LEVIES)

SEC. 3. Initiative Power for Local Taxes, Assessments, Fees and Charges. Notwithstanding any other provision of this Constitution, including, but not limited to, Sections 8 and 9 of Article II, the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local

tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SECTION 1. Application. Notwithstanding any other provision of law, the provisions of this article shall apply to all assessments, fees and charges, whether imposed pursuant to state statute or local government charter authority. Nothing in this article or Article XIIIIC shall be construed to:

- (a) Provide any new authority to any agency to impose a tax, assessment, fee, or charge.
- (b) Affect existing laws relating to the imposition of fees or charges as a condition of property development.
- (c) Affect existing laws relating to the imposition of timber yield taxes.

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 2. Definitions. As used in this article:

- (a) "Agency" means any local government as defined in subdivision (b) of Section 1 of Article XIIIIC.
- (b) "Assessment" means any levy or charge upon real property by an agency for a special benefit conferred upon the real property. "Assessment" includes, but is not limited to, "special assessment," "benefit assessment," "maintenance assessment" and "special assessment tax."
- (c) "Capital cost" means the cost of acquisition, installation, construction, reconstruction, or replacement of a permanent public improvement by an agency.
- (d) "District" means an area determined by an agency to contain all parcels which will receive a special benefit from a proposed public improvement or property-related service.
- (e) "Fee" or "charge" means any levy other than an ad valorem tax, a special tax, or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.
- (f) "Maintenance and operation expenses" means the cost of rent, repair, replacement, rehabilitation, fuel, power, electrical current, care, and supervision necessary to properly operate and maintain a permanent public improvement.
- (g) "Property ownership" shall be deemed to include tenancies of real property where tenants are directly liable to pay the assessment, fee, or charge in question.
- (h) "Property-related service" means a public service having a direct relationship to property ownership.
- (i) "Special benefit" means a particular and distinct benefit over and above general benefits conferred on real property located in the district or to the public at large. General enhancement of property value does not constitute "special benefit."

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 3. Property Taxes, Assessments, Fees and Charges Limited. (a) No tax, assessment, fee, or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except:

(1) The ad valorem property tax imposed pursuant to Article XIII and Article XIII A.

(2) Any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIII A.

(3) Assessments as provided by this article.

(4) Fees or charges for property related services as provided by this article.

(b) For purposes of this article, fees for the provision of electrical or gas service shall not be deemed charges or fees imposed as an incident of property ownership.

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 4. Procedures and Requirements for All Assessments. (a) An agency which proposes to levy an assessment shall identify all parcels which will have a special benefit conferred upon them and upon which an assessment will be imposed. The proportionate special benefit derived by each identified parcel shall be determined in relationship to the entirety of the capital cost of a public improvement, the maintenance and operation expenses of a public improvement, or the cost of the property related service being provided. No assessment shall be imposed on any parcel which exceeds the reasonable cost of the proportional special benefit conferred on that parcel. Only special benefits are assessable, and an agency shall separate the general benefits from the special benefits conferred on a parcel. Parcels within a district that are owned or used by any agency, the State of California or the United States shall not be exempt from assessment unless the agency can demonstrate by clear and convincing evidence that those publicly owned parcels in fact receive no special benefit.

(b) All assessments shall be supported by a detailed engineer's report prepared by a registered professional engineer certified by the State of California.

(c) The amount of the proposed assessment for each identified parcel shall be calculated and the record owner of each parcel shall be given written notice by mail of the proposed assessment, the total amount thereof chargeable to the entire district, the amount chargeable to the owner's particular parcel, the duration of the payments, the reason for the assessment and the basis upon which the amount of the proposed assessment was calculated, together with the date, time, and location of a public hearing on the proposed assessment. Each notice shall also include, in a conspicuous place thereon, a summary of the procedures applicable to the completion, return, and tabulation of the ballots required pursuant to subdivision (d), including a disclosure statement that the existence of a majority protest, as defined in subdivision (e), will result in the assessment not being imposed.

(d) Each notice mailed to owners of identified parcels within the district pursuant to subdivision (c) shall contain a ballot which includes the agency's address for receipt of the ballot once completed by any owner receiving the notice whereby the owner may indicate his or her name, reasonable identification of the parcel, and his or her support or opposition to the proposed assessment.

(e) The agency shall conduct a public hearing upon the proposed assessment not less than 45 days after mailing the notice of the proposed

assessment to record owners of each identified parcel. At the public hearing, the agency shall consider all protests against the proposed assessment and tabulate the ballots. The agency shall not impose an assessment if there is a majority protest. A majority protest exists if, upon the conclusion of the hearing, ballots submitted in opposition to the assessment exceed the ballots submitted in favor of the assessment. In tabulating the ballots, the ballots shall be weighted according to the proportional financial obligation of the affected property.

(f) In any legal action contesting the validity of any assessment, the burden shall be on the agency to demonstrate that the property or properties in question receive a special benefit over and above the benefits conferred on the public at large and that the amount of any contested assessment is proportional to, and no greater than, the benefits conferred on the property or properties in question.

(g) Because only special benefits are assessable, electors residing within the district who do not own property within the district shall not be deemed under this Constitution to have been deprived of the right to vote for any assessment. If a court determines that the Constitution of the United States or other federal law requires otherwise, the assessment shall not be imposed unless approved by a two-thirds vote of the electorate in the district in addition to being approved by the property owners as required by subdivision(e).

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 5. Effective Date. Pursuant to subdivision (a) of Section 10 of Article II, the provisions of this article shall become effective the day after the election unless otherwise provided. Beginning July 1, 1997, all existing, new, or increased assessments shall comply with this article. Notwithstanding the foregoing, the following assessments existing on the effective date of this article shall be exempt from the procedures and approval process set forth in Section 4:

(a) Any assessment imposed exclusively to finance the capital costs or maintenance and operation expenses for sidewalks, streets, sewers, water, flood control, drainage systems or vector control. Subsequent increases in such assessments shall be subject to the procedures and approval process set forth in Section 4.

(b) Any assessment imposed pursuant to a petition signed by the persons owning all of the parcels subject to the assessment at the time the assessment is initially imposed. Subsequent increases in such assessments shall be subject to the procedures and approval process set forth in Section 4.

(c) Any assessment the proceeds of which are exclusively used to repay bonded indebtedness of which the failure to pay would violate the Contract Impairment Clause of the Constitution of the United States.

(d) Any assessment which previously received majority voter approval from the voters voting in an election on the issue of the assessment. Subsequent increases in those assessments shall be subject to the procedures and approval process set forth in Section 4.

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 6. Property Related Fees and Charges. (a) Procedures for New or Increased Fees and Charges. An agency shall follow the procedures pursuant

to this section in imposing or increasing any fee or charge as defined pursuant to this article, including, but not limited to, the following:

(1) The parcels upon which a fee or charge is proposed for imposition shall be identified. The amount of the fee or charge proposed to be imposed upon each parcel shall be calculated. The agency shall provide written notice by mail of the proposed fee or charge to the record owner of each identified parcel upon which the fee or charge is proposed for imposition, the amount of the fee or charge proposed to be imposed upon each, the basis upon which the amount of the proposed fee or charge was calculated, the reason for the fee or charge, together with the date, time, and location of a public hearing on the proposed fee or charge.

(2) The agency shall conduct a public hearing upon the proposed fee or charge not less than 45 days after mailing the notice of the proposed fee or charge to the record owners of each identified parcel upon which the fee or charge is proposed for imposition. At the public hearing, the agency shall consider all protests against the proposed fee or charge. If written protests against the proposed fee or charge are presented by a majority of owners of the identified parcels, the agency shall not impose the fee or charge.

(b) Requirements for Existing, New or Increased Fees and Charges a fee or charge shall not be extended, imposed, or increased by any agency unless it meets all of the following requirements:

(1) Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.

(2) Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.

(3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.

(4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, shall be classified as assessments and shall not be imposed without compliance with Section 4.

(5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Reliance by an agency on any parcel map, including, but not limited to, an assessor's parcel map, may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership for purposes of this article. In any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance with this article.

(c) Voter Approval for New or Increased Fees and Charges. Except for fees or charges for sewer, water, and refuse collection services, no property related fee or charge shall be imposed or increased unless and until that fee or charge is submitted and approved by a majority vote of the property owners of the property subject to the fee or charge or, at the option of the agency, by a two-thirds vote of the electorate residing in the affected area. The election shall be conducted not less than 45 days after the public hearing. An agency may adopt procedures similar to those for increases in assessments in the conduct of elections under this subdivision.

(d) Beginning July 1, 1997, all fees or charges shall comply with this section.