

BORREGO WATER DISTRICT 2019 TOWN HALL
Thursday, February 28th 5:30 PM to 7:00 PM
Borrego Springs Library Community Room

The annual Borrego Springs Town Hall will be held on Thursday, February 28th 2019 at the new Borrego Springs Library, Community Room. In recent years, the Town Hall has focused on the Sustainable Groundwater Management Act (SGMA) and its components, impacts and related issues. Following over 2 years of work, BWD, County of San Diego, its Consultants and an Advisory Committee comprised of 9 stakeholder groups are scheduled to release the Groundwater Sustainability Plan (GSP) in March 2019. BWD and County are planning a series of meetings on the GSP and its components during the 60-day GSP Public Review, so BWD will take the opportunity at the 2019 Town Hall to focus on other issues of importance to BWD and its ratepayers including Operations, Capital Improvement Construction, BWD Finances, Rate Projections, GSP status and review process and Q/A.

Please join us for this important meeting to discuss issues that will impact our entire community.

Town Hall Agenda

Welcome and Introductions – Kathy Dice, BWD President (5 min.)

BWD

Role of BWD – Kathy Dice (5 min.)

BWD Responsibilities, Financial History/Turn Around, Recent Bond Issue, Harry Ehrlich (10 min)

Capital Construction – Ray Delahay (5 min.)

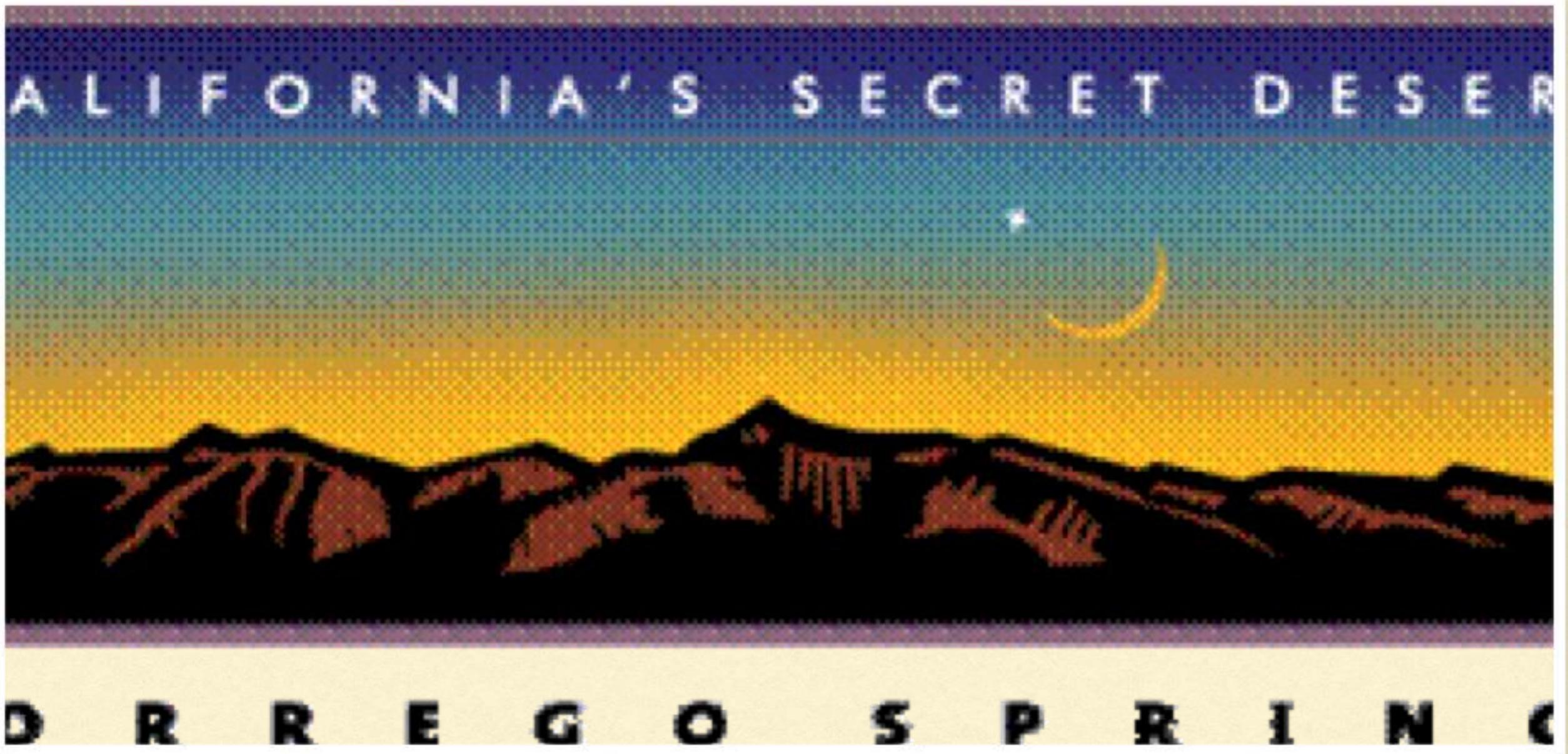
GSP

GSP History and Next Steps/Process – Dave Duncan (10 min)

BWD Rate Comparison, GSP Rate Impacts, Issues with greatest potential rate impact - Lyle Brecht (15 min)

How Ratepayers Can Be Heard - Gary Haldeman, BWD Ratepayer Representative to GSP Advisory Committee (5 min)

Q&A: Verbal and written questions (remaining time) – Poole



BORREGO WD - FINANCE

Town Hall 2019 – Harry Ehrlich, Board of Directors

SOME HISTORY - IN FY 2011

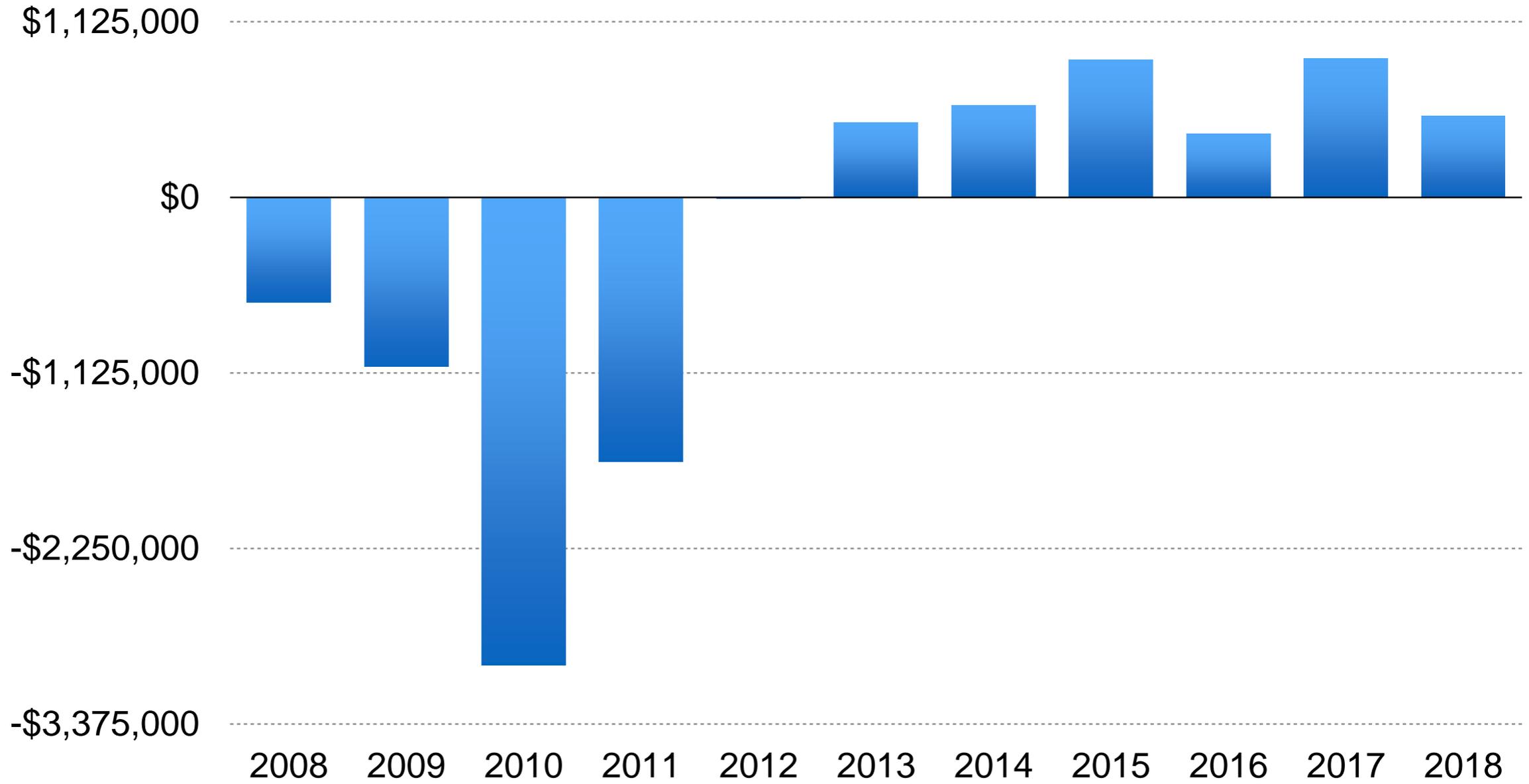
- \$200,000 of ~\$6.2 million in reserves left; remainder allocated
- ~\$1.2 million annual operating deficit
- ~\$7.0 million in potential new debt from pre-2011 business deals with no means to pay P&I
- 6 disputes and threats of litigation (est. cost >\$1 million)
- No ability to borrow, even short-term (lost all creditworthiness)
- No longer-term CIP plan; no cash flow management reporting

BOARD STRATEGIC FOCUS OVER 8-YEARS: TO REGAIN CREDIT CAPACITY/STABILITY

- Eliminated \$5.5 million of \$7.0 million in future debt payment obligations
- Refinanced \$1.5 million Viking loan saving \$1 million in financing costs
- Cut \$1.2 million in annual operating expenses for several years
- Negotiated resolutions with all disputants saving ~\$900,000
- Conducted 2 Proposition 218s that raised residential commodity rates for needed funds
- Wrote off ~\$1.4 million in previously capitalized expenses to clean up Balance Sheet
- Developed rolling 10-year CIP; monthly detailed cash flow report; consolidated FY budget
- Deferred ~\$11.0 million in identified CIP needs until credit was restored

Financial Health of the District

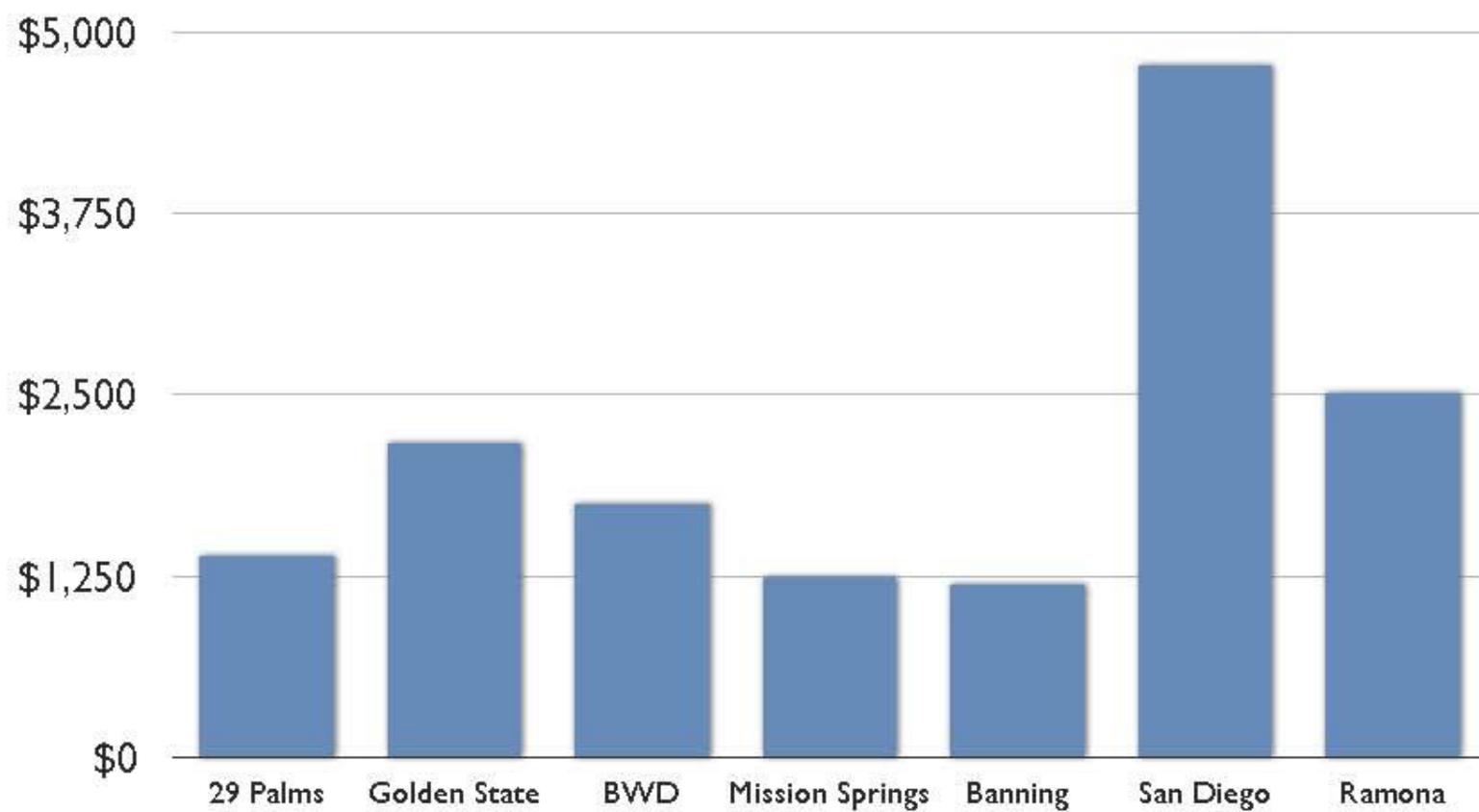
■ Net Increase (Decrease) In Cash & Cash Equivalents



PRESENT FINANCIAL STATUS

	2018 \$	2017 \$
□		
□ Net Position Investment in Capital Assets:	14,816,900	14,128,331
□ Unrestricted Fund Balance	4,245,573	3,982,417
□ Total Revenues	4,310,327	4,015,715
□ Total Expenses	(3,509,671)	(2,990,741)
□ Income	<u>820,656</u>	<u>1,024,974</u>
□ Total Cash Reserves (6/30/2018)	4,570,637	
□ Reserve Policy Goal	5,380,000	
□ Unfunded Reserve Goal (Future Years)	(809,363)	

■ 2019 Cost for 1 AF of water purchased (3/4" meter)

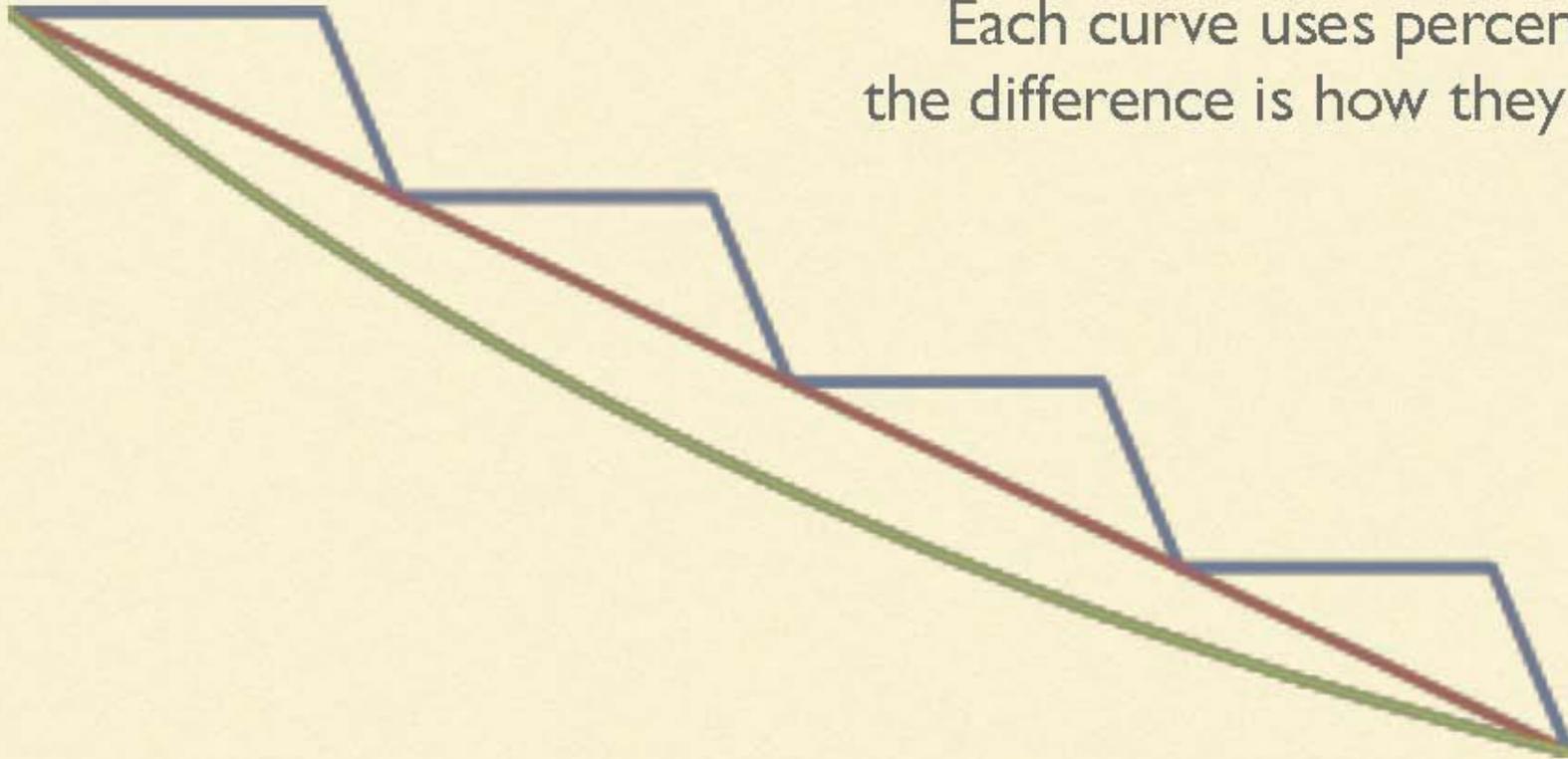


SGMA ECONOMICS

- SGMA is a massive unfunded State mandate
- managing the GW basins in CA is necessary to support continued growth of the State's economy
- bringing the critically overdrafted Borrego Springs Subbasin into sustainable use in a timely fashion is necessary to preserve the future economy of Borrego
- SGMA changes the economics of GW use; for the first time GW itself will have a cost. Today, this is not the case

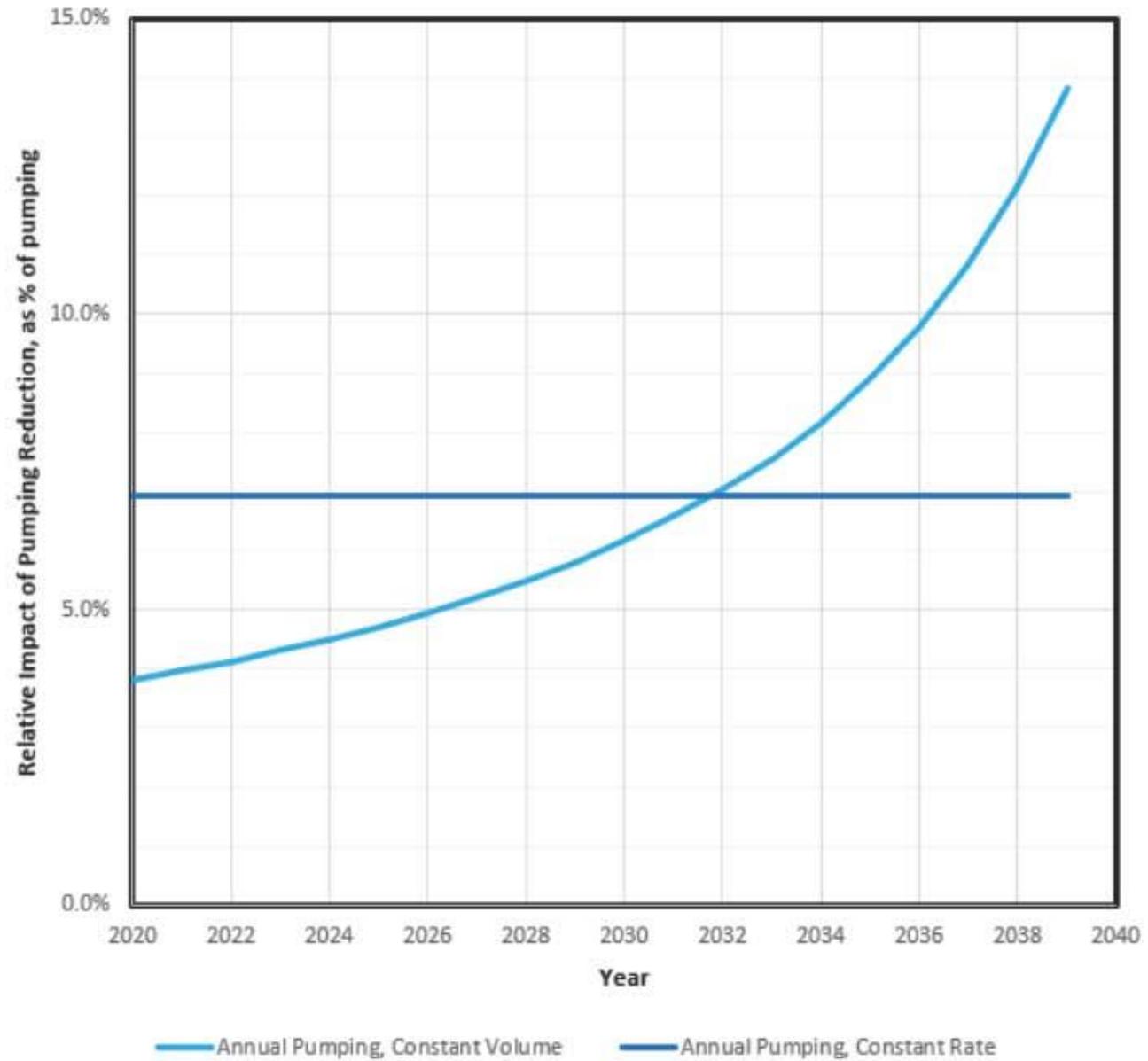
REDUCTION CURVE OPTIONS

Each curve uses percentages;
the difference is how they are used

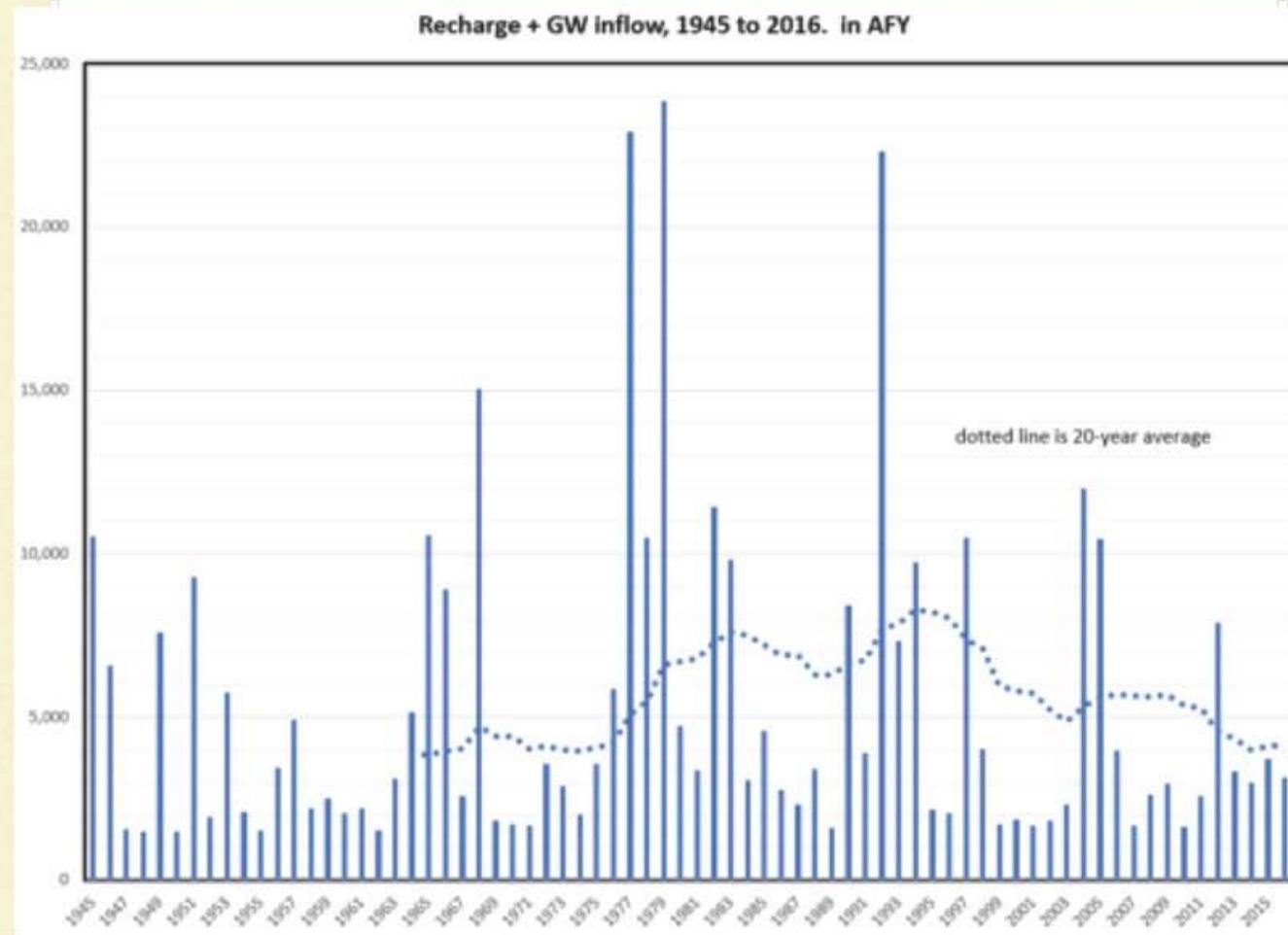


Blue = stepwise; Red = constant amount;
Green = constant rate

Contrasting Rate Schedules: Constant Volume vs Constant Rate



VARIABILITY OF RECHARGE



DIRECTOR BRECHT FY 2019 TOWN HALL NARRATIVE

Slide 1

Water rates are what they are to provide **potable water** to your homes & businesses. Under State law, the District is required to charge rates that produce revenues to cover its *costs*. So, the deeper issue is not rates, but *costs* to provide potable water. Rates are a direct result of the District's *costs*.

- ❖ assuming the District is being well-managed:
 - ❖ from a *public health* perspective, most of the district's costs are **non-discretionary**. Costs are primarily driven by safe drinking water regulations and **potable water** supply economics;
 - ❖ from an *economic development* perspective, most of the district's costs are **non-discretionary**. Water quality and supply uncertainty constrains economic development.

Thus today, District *cost* issues beg two questions:

- 1) do the rates produce sufficient revenue for the District to provide **potable and reliable service for its customers**? Communities where municipal water purveyors cannot afford to provide potable water to their customers get into severe economic distress and sometimes experience **horrendous public health outcomes**.
- 2) w/re to SGMA, are SGMA-related costs being allocated across all pumpers in the basin fairly, so the costs of SGMA are not being disproportionately placed on the backs of ratepayers?

Slide 2 - SGMA description

- 3) The Sustainable Groundwater Management Act (SGMA) is a massive unfunded mandate to bring pumping from the basin into balance w/ natural recharge. Overdraft of a groundwater basin is extremely expensive. Many of these costs attributed to the overdraft have never been accounted for in this basin. But, they do not go away with age; they only grow larger, as they accumulate over time.
- 4) Now, every pumper of the basin using more than 2 AFY must pay something for the water they pump rather than nothing. Bottom line is that water rates for municipal customers will increase in the future. Precisely how much is pure speculation at this juncture. But they will increase.

DIRECTOR BRECHT FY 2019 TOWN HALL NARRATIVE

What is best for ratepayers?

1. Can or should the District claim pumping allocations with no reductions, without any payment to other pumpers?
 - Unfortunately, the simple answer is no — at least based on the extensive research into this option to date. The District has been looking at this option since about 2013, and has reviewed changes in the law every year since then. A Groundwater Sustainability Agency (GSA) can only propose pumping allocations, as long as those pumping allocations do not potentially impinge on someone's anticipated water rights in an adjudication;
 - The only way to establish water rights in an overdrafted basin is through the courts. If the pumpers do not all agree to the proposed allocation of water rights in a court stipulation, the only option is an adversarial adjudication.
 - Pursuing an adversarial adjudication at this time in the hopes of the courts awarding 1,700 AFY in water rights to the District would only add economic risk to ratepayers from SGMA;
 - There is no legal precedent; no established legal principle that indicates municipal purveyors will be awarded 100% or more of current use as a prescriptive right if one goes to court over this issue.
 - State grants will not pay for an adversarial adjudication. We know of no situation where State grants were used to pay attorney fees in an adversarial adjudication.
 - In summary, the District Board is making an *economic* decision to not pursue zero reductions from current municipal use for no compensation to other potential water rights holders at this time. This does not mean the District is cowed from disputing any attempt to disadvantage the District or its ratepayers unfairly;
 - the fact that District ratepayers, as a group use less water now than they did 10-years ago is irrelevant. The same can be said for the farming and golf sectors as a group. That is why starting pumping allocations will be set at the maximum annual pumping from Jan 1, 2010 - Dec 31, 2014. This is to provide credit for any water conservation that may have occurred since then;
 - I've given you the *economic and legal arguments*. This is substantively different than what may be a fair or moral argument. In my opinion, both SGMA and CA water law leave much off the table related to equity, fairness, and environmental justice.

DIRECTOR BRECHT FY 2019 TOWN HALL NARRATIVE

2. does WQ deteriorate as water levels decline? The simple answer is “yes (irrespective of what some ‘experts’ may otherwise claim), but it depends.”

- In the Southern Management Area (SMA) of the Subbasin, the water quality is poor, independent of depth.
- In the Northern Management Area (NMA) of the Subbasin, the shallowest part of the upper aquifer is likely to be polluted w/ nitrates based on our limited data. But as one pumps from deeper levels in the upper aquifer and middle aquifer, the WQ appears to improve markedly. Little is yet known of how WQ changes in the lower aquifer in the NMA;
- In the Central Management Area (CMA) of the Subbasin, it depends where one is pumping, and how deep one is pumping, from which aquifer (lower, middle or upper).
- Based on present knowledge, there is no generalized statement that one can make about WQ and depth that applies uniformly to everywhere in the basin or even to specific aquifers of the basin;
- What we do know is that the upper aquifer of the basin, where the highest water quality is found has largely been dewatered in the Central Management Area due to the overdraft. Thus, the majority of municipal pumping is now from municipal wells screened in the middle and lower aquifers.
- What we also know is that the water that is presently being pumped from these municipal wells is presently good, well within State Minimum Contaminants Levels (MCLs). We also know there are no detected trends in WQ from these wells in the CMA that lead us to worry about near-term WQ changes;
- That said, the potential degradation of WQ due to the critical overdraft of the basin is the #1 risk factor for the District and its ratepayers. The degradation of WQ in the basin is a low probability high consequence concern.
- For that reason, the District has switched from a 1x/3year WQ testing schedule mandated by the State to a 2x/1year WQ testing, expanded its WQ monitoring network, and is considering the recommendations from one of its consultants to do monthly water chemistry testing.

DIRECTOR BRECHT FY 2019 TOWN HALL NARRATIVE

- The District Board believes that comprehensive water quality monitoring and testing program anticipated by the GSP should begin immediately and not wait to begin until some future convenient date;
 - historically, the most expensive WQ problem for municipal water supplies has been degraded WQ from septic tank effluent. As many as 4 municipal wells have either been abandoned or had to be re-drilled or replaced due to nitrate contamination from septic tanks (ID4-1, ID4-4 (deepened), WC #1, Roadrunner). These days, a new municipal well is a \$1.5 million cost;
 - historically, 2 municipal wells (ID-1 & ID1-2) have been abandoned due to naturally occurring contaminants;
 - historically, we presently know of no municipal wells that have been adversely affected by pollution from return flows from agricultural pumping.
3. do return flows from irrigation matter for WQ? The answer is “Yes.”
- Return flows are highly polluted with salts and chemicals. Return flow water is non-potable. This water would need to be treated before it was suitable for human consumption;
 - does that mean that we need to be concerned today about return flows. The simple answer is yes & no;
 - the more return flows, the more pollution of that portion of the aquifer near the well that is drawing water from where return flows emanate;
 - however, at least in a foreseeable future, it is unlikely that concentrated salts and chemicals from return flows would potentially enter into potable water sources;
 - the precautionary principle suggests that we must today plan for an uncertain future and make allowances for the potential treatment of historical return flows from agricultural irrigation.
4. Should the District lobby for shorter reductions rather than 20-years?
- a shorter reduction period, all things being equal is less risky for the District. That was especially true 35 years ago when the first USGS study was completed for this basin. But, 35-years have gone by with no reduction of the overdraft. Between 1982 and 2010, the overdraft actually more than doubled;

DIRECTOR BRECHT FY 2019 TOWN HALL NARRATIVE

- For example, a 15-year constant volume reduction starting at years 2022-23 with a is less attractive to the District than a 20-year, constant percentage reduction starting at year 2020. Why? Because there is less mass storage changes, meaning less risk, for the basin under the 20-year constant percentage reduction than under a 15-year constant volume reduction method;
 - In other words, the reduction method one chooses may be more important than the total length of time reductions can occur.
5. Are Groundwater Dependent Ecosystems (GDEs) considered and addressed in the draft GSP?
- GDE's are considered in the draft GSP. The question for the community is whether they are adequately and appropriately addressed in the Plan;
 - Under SGMA, GDEs must be considered, but they are not required to be addressed in any particular way;
 - how they are addressed is a policy issue for the local GSA;
 - what DWR requires is that any policy be supported by analysis, rather than by arbitrary choice or fiat;
 - one way to address GDEs is by treating them as a pumper of GW that may not be reduced. Another way is to include them in adaptive management criteria that would alter reductions, if certain GDE thresholds are breached;
 - until the public has access to the draft GSP to review during the public review period, the public will have the opportunity to determine whether GDEs are being treated appropriately.