PUBLIC STATEMENT OF THE GCSD BOARD REGARDING THE WATER RATE SCHEDULE ADOPTED 1/13/2016

1. The governing Board of Groveland Community Services District reaffirm that the water rate schedule, adopted on 13 January 2016, has been reviewed by District Counsel, and in his opinion conforms to the requirements of California Constitution Article XIII D (proposition 218). A copy of his letter to this effect will be placed in the record.

2. District Counsel also advises that the District may not adopt a modified ("annualized") rate plan as opposed to the current monthly rate plan without formally revising the rate schedule. The October 2015 Water Rate Study ("Rate Study") methodology used a monthly baseline allowance and variable ("usage") component of the rate as well as a fixed monthly rate. The discussed annualized rate plan would have created a new methodology (annual) different than the methodology in the Rate Study (monthly).
As it turns out, this is a moot point. The rate calculation was based on the usage of 106 million gallons in calendar year 2014. We now have full-year results from 2015, reflecting the state-mandated reduction in consumption, and it was about 17% less than 2014. Since the state emergency drought regulations have been extended, we expect that usage in future years will resemble that of 2015, and that annual revenue will be around 5% lower than the estimate used in the rate calculation.

3. There is a significant omission in the Engineering Study. The software tool used by our contractor estimates Capital Improvement and Replacement costs by examining the existing database of capital property, assigning an expected remaining lifetime to each item, and assuming that everything will have to be replaced in due course. The problem is that the pipeline infrastructure within Pine Mountain Lake does not appear in the District's capital database, and was not included in the calculation of the reserve needed to fund future capital replacement.

What this means is that the adopted rate increase is too small. A very rough estimate of the discrepancy is that the total replacement cost will be around $44,000,000. Amortized over an estimated lifetime of 40 years, and assuming that the District will be able to obtain grant funds to cover 75% of the expense, the missing piece of the budget is about $275,000 per year, or about $7.00 per month per customer. Another way of looking at it is that the adopted rate is about 9% too low. The Board has not made any decision regarding this matter. The adopted rate schedule will go into effect as planned. If the Board were to decide to seek an increase in the rate to make up the shortfall, it would have to go through another Proposition 218 Rate Increase.

4. Regarding capital restoration projects, it is worth pointing out that the District's plan of seeking grant funding is a long-term strategy. Many granting agencies will require matching funds from the District on the order of 25% of the total. These matching funds must be "in the bank" before the grantor will consider an application. During the next four to six years, most of the revenue earmarked for capital improvement will be accumulated in a restricted reserve fund, rather than being spent on projects. This will be repeated: build a reserve for matching funds – obtain a major grant – perform the project. There will likely be years during which no major capital project is underway. This is a consequence of the fact that the District does not have an established capital reserve fund.

With respect to the specific issue of replacing the pipeline infrastructure in PML, the District hopes to coordinate with the Pine Mountain Lake Association to minimize the total cost of asphalt repair. However, as mentioned above, it will be several years before the District will be able to undertake a major pipeline project that might affect PMLA's road maintenance plans.