

**LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT**

**M E M O R A N D U M**

**DATE:** DECEMBER 8, 2015

**TO:** BOARD OF DIRECTORS  
Lake Arrowhead Community Services District

**FROM:**   
CATHERINE CERRI, Finance Manager

  
LEO HAVENER, General Manager

**SUBJECT:** CONSIDER IMPLEMENTATION OF DROUGHT SURCHARGES

**A. RECOMMENDATION**

Delay implementation of drought surcharge until Gov. Brown makes a determination on the drought mandate in February 2016.

**B. REASON FOR RECOMMENDATION**

While Gov. Brown has indicated that he may continue the state mandated restrictions, due to the projected El Nino, it is possible that the drought may not persist. The District's irrigation season is the best time to recover lost revenue, and the largest opportunity has already past for fiscal year 2015/2016. If the drought mandate continues through the summer of 2016, the Board of Directors may reconsider prior to the next irrigation season.

**C. BACKGROUND INFORMATION**

On May 5, 2015, the state mandated all urban water suppliers to reduce water use by 25% through February 2016. Due to proactive water conservation, the District was only required to reduce usage by 16%. So far, the District has conserved 33% through October 2015, mostly by reducing outdoor irrigation to two days per week. On November 13, 2015, Gov. Brown issued Executive Order B-36-15 stating, "If drought conditions persist through January 2016, the Water Board shall extend until October 31, 2016, restrictions to achieve a statewide reduction in urban potable water usage."

Continued water restrictions equate to lower revenue for the District's water systems. The District contracted with HDR Engineering to conduct a rate study which included drought surcharges that are structured to recover lost revenue during times of extreme water restrictions. When properly designed, if a customer conserves they should not see an increase in their bill but the largest water conservation opportunities in our community come from outdoor irrigation.

The District's Cash Reserve Policy calls for a contribution to capital improvement funds of annual depreciation expense plus 10%. For the Water Enterprise, this is approximately \$2.1M per year. This enterprise has not yet met this goal but with delays to certain projects, the current cash on hand may be enough to cover the District's planned projects over the next two years, even with the current irrigation restrictions and without the drought surcharge. Please see attached cash flow projections.

Options for consideration:

1. Implement Level 1 drought surcharges as of January 1, 2016 as stated in the Proposition 218 Notice.
2. Implement Level 1 drought surcharges as of May 1, 2016 when irrigation season begins.
3. Implement Level 1 drought surcharges at a rate less than the \$0.79 per CCF in Arrowhead Woods, and the \$0.85 in Deer Lodge Park.

#### **D. FISCAL IMPACT**

Option 1: The drought surcharges under the current drought restrictions of Ordinance 79 Level 1 would generate approximately \$400,000 over the entire year for the Water Enterprise.

Option 2: Implementing the drought surcharge throughout irrigation season only would generate approximately \$241,000 at Level 1 in the Water Enterprise.

#### **E. ATTACHMENTS**

Water Enterprise Cash Flow Projections  
Drought Surcharge Rate Sheet  
California Executive Order B-36-15

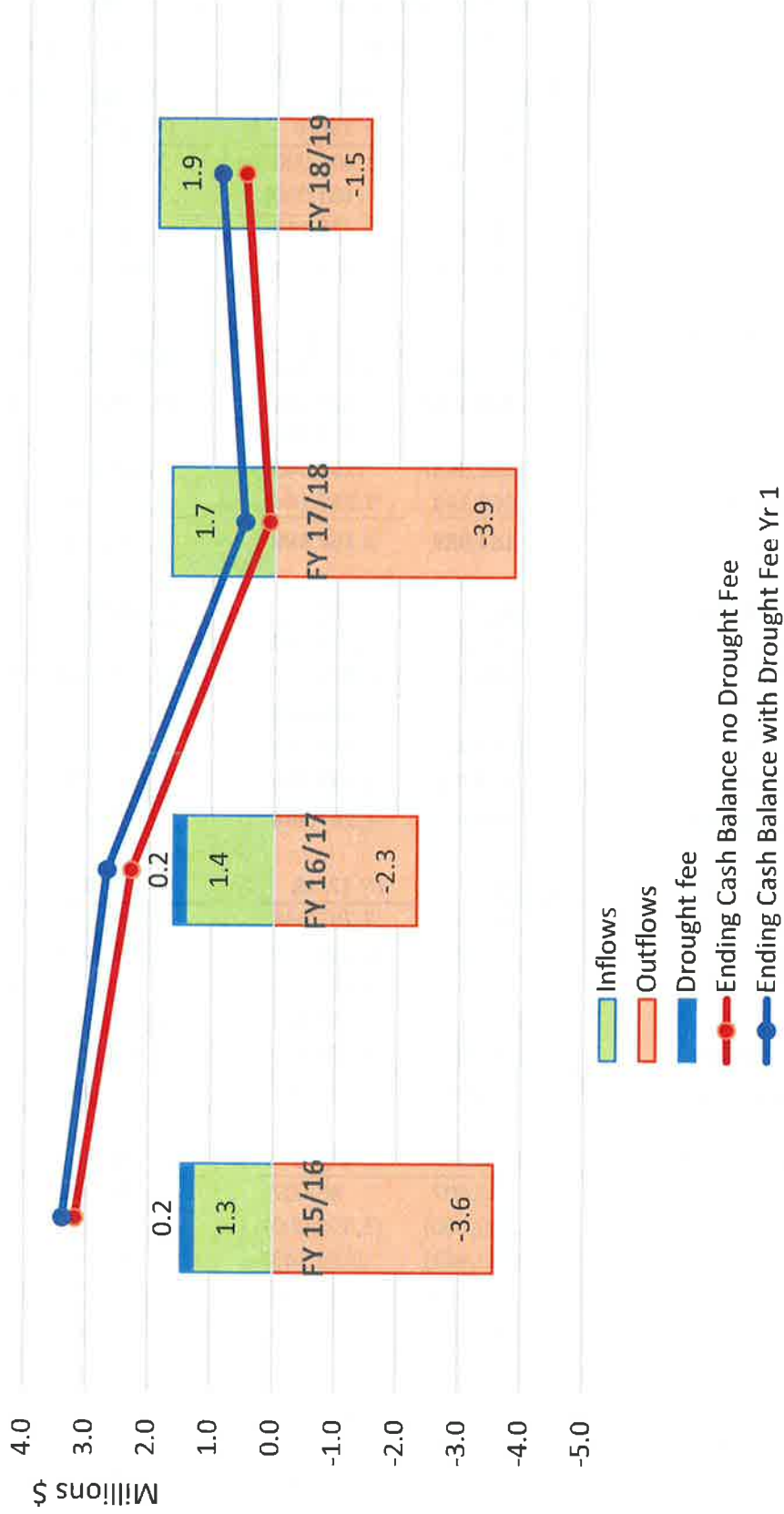
|                                   | <b>No Drought Fee<sup>1</sup></b>  |                                     | <b>With Drought Fee Yr 1<sup>1</sup></b> |                                     |
|-----------------------------------|------------------------------------|-------------------------------------|--|-------------------------------------|
|                                   | <b>CIP Scenarios</b>               |                                     | <b>CIP Scenarios</b>                     |                                     |
|                                   | <b><u>Budgeted<sup>2</sup></u></b> | <b><u>Projected<sup>3</sup></u></b> | <b><u>Budgeted<sup>2</sup></u></b>       | <b><u>Projected<sup>3</sup></u></b> |
| <b>Water Operating Fund (100)</b> | <u>FY 15/16</u>                    | <u>FY 15/16</u>                     | <u>FY 15/16</u>                          | <u>FY 15/16</u>                     |
| Budgeted Free Cash Flow           | 1,400,000                          | 1,400,000                           | 1,400,000                                | 1,400,000                           |
| Projected Revenue Shortfall       | (164,000)                          | (164,000)                           | 36,000                                   | 36,000                              |
| Projected Expense Savings         | 33,144                             | 33,144                              | 33,144                                   | 33,144                              |
| Projected Free Cash Flow          | <u>1,269,144</u>                   | <u>1,269,144</u>                    | <u>1,469,144</u>                         | <u>1,469,144</u>                    |
| <b>Water Capital Fund (120)</b>   | <u>FY 15/16</u>                    | <u>FY 15/16</u>                     | <u>FY 15/16</u>                          | <u>FY 15/16</u>                     |
| Beginning Balance                 | 5,474,304                          | 5,474,304                           | 5,474,304                                | 5,474,304                           |
| Budgeted projects                 | (4,376,116)                        | (4,376,116)                         | (4,376,116)                              | (4,376,116)                         |
| North Bay                         | -                                  | 1,000,000                           | -  | 1,000,000                           |
| Debt Payment                      | (182,343)                          | (182,343)                           | (182,343)                                | (182,343)                           |
| Free CF from Operations           | <u>1,269,144</u>                   | <u>1,269,144</u>                    | <u>1,469,144</u>                         | <u>1,469,144</u>                    |
| Projected Ending Balance          | <u>2,184,989</u>                   | <u>3,184,989</u>                    | <u>2,384,989</u>                         | <u>3,384,989</u>                    |
| <b>Water Capital Fund (120)</b>   | <u>FY 16/17</u>                    | <u>FY 16/17</u>                     | <u>FY 16/17</u>                          | <u>FY 16/17</u>                     |
| Beginning Balance                 | 2,184,989                          | 3,184,989                           | 2,384,989                                | 3,384,989                           |
| Budgeted projects                 | (3,515,527)                        | (3,515,527)                         | (3,515,527)                              | (3,515,527)                         |
| North Bay                         | -                                  | 1,386,613                           | -  | 1,386,613                           |
| Debt Payment                      | (182,343)                          | (182,343)                           | (182,343)                                | (182,343)                           |
| Free CF from Operations           | <u>1,413,916</u>                   | <u>1,413,916</u>                    | <u>1,613,916</u>                         | <u>1,613,916</u>                    |
| Projected Ending Balance          | <u>(98,965)</u>                    | <u>2,287,648</u>                    | <u>301,035</u>                           | <u>2,687,648</u>                    |
| <b>Water Capital Fund (120)</b>   | <u>FY 17/18</u>                    | <u>FY 17/18</u>                     | <u>FY 17/18</u>                          | <u>FY 17/18</u>                     |
| Beginning Balance                 | (98,965)                           | 2,287,648                           | 301,035                                  | 2,687,648                           |
| Budgeted projects                 | (1,296,000)                        | (1,296,000)                         | (1,296,000)                              | (1,296,000)                         |
| North Bay                         | -                                  | (2,386,613)                         | -  | (2,386,613)                         |
| Debt Payment                      | (182,343)                          | (182,343)                           | (182,343)                                | (182,343)                           |
| Free CF from Operations           | <u>1,663,916</u>                   | <u>1,663,916</u>                    | <u>1,663,916</u>                         | <u>1,663,916</u>                    |
| Projected Ending Balance          | <u>86,607</u>                      | <u>86,607</u>                       | <u>486,607</u>                           | <u>486,607</u>                      |
| <b>Water Capital Fund (120)</b>   | <u>FY 18/19</u>                    | <u>FY 18/19</u>                     | <u>FY 18/19</u>                          | <u>FY 18/19</u>                     |
| Beginning Balance                 | 86,607                             | 86,607                              | 486,607                                  | 486,607                             |
| Budgeted projects                 | (1,330,000)                        | (1,330,000)                         | (1,330,000)                              | (1,330,000)                         |
| Debt Payment                      | (182,343)                          | (182,343)                           | (182,343)                                | (182,343)                           |
| Free CF from Operations           | <u>1,913,916</u>                   | <u>1,913,916</u>                    | <u>1,913,916</u>                         | <u>1,913,916</u>                    |
| Projected Ending Balance          | <u>488,180</u>                     | <u>488,180</u>                      | <u>888,180</u>                           | <u>888,180</u>                      |

<sup>1</sup>Irrigation restrictions continued at 2 days per week.

<sup>2</sup> Budgeted scenario with North Bay starting in FY 15/16.

<sup>3</sup> Projected scenario reflects more realistic cash flow with North Bay starting in FY 16/17

# Cash Flow Water Capital Fund (120)



## Proposed Drought Rate Surcharges

### Drought Rate Surcharges - Arrowhead Woods Residential (\$/CCF)

| \$ per Billing Unit <sup>1</sup> |         | Proposed    | Proposed    | Proposed    | Proposed    | Proposed    |
|----------------------------------|---------|-------------|-------------|-------------|-------------|-------------|
| Tier Volume                      | Current | Jan 1, 2016 | Jan 1, 2017 | Jan 1, 2018 | Jan 1, 2019 | Jan 1, 2020 |
| Stage 1 all units                | \$ -    | \$ 0.79     | \$ 0.82     | \$ 0.84     | \$ 0.87     | \$ 0.90     |
| Stage 2 all units                | \$ -    | \$ 1.81     | \$ 1.87     | \$ 1.93     | \$ 1.99     | \$ 2.06     |
| Stage 3 all units                | \$ -    | \$ 7.00     | \$ 7.22     | \$ 7.46     | \$ 7.68     | \$ 7.97     |

### Drought Rate Surcharges - Arrowhead Woods Irrigation (\$/CCF)

| \$ per Billing Unit <sup>1</sup> |         | Proposed    | Proposed    | Proposed    | Proposed    | Proposed    |
|----------------------------------|---------|-------------|-------------|-------------|-------------|-------------|
| Tier Volume                      | Current | Jan 1, 2016 | Jan 1, 2017 | Jan 1, 2018 | Jan 1, 2019 | Jan 1, 2020 |
| Stage 1 all units                | \$ -    | \$ 1.49     | \$ 1.35     | \$ 1.41     | \$ 1.48     | \$ 1.56     |
| Stage 2 all units                | \$ -    | \$ 4.91     | \$ 4.45     | \$ 4.65     | \$ 4.88     | \$ 5.13     |
| Stage 3 all units                | \$ -    | \$ 36.48    | \$ 33.05    | \$ 34.56    | \$ 36.23    | \$ 38.14    |

### Drought Rate Surcharges - Arrowhead Woods Commercial (\$/CCF)

| \$ per Billing Unit <sup>1</sup> |         | Proposed    | Proposed    | Proposed    | Proposed    | Proposed    |
|----------------------------------|---------|-------------|-------------|-------------|-------------|-------------|
| Tier Volume                      | Current | Jan 1, 2016 | Jan 1, 2017 | Jan 1, 2018 | Jan 1, 2019 | Jan 1, 2020 |
| Stage 1 all units                | \$ -    | \$ 0.66     | \$ 0.69     | \$ 0.72     | \$ 0.75     | \$ 0.78     |
| Stage 2 all units                | \$ -    | \$ 2.07     | \$ 2.17     | \$ 2.25     | \$ 2.34     | \$ 2.43     |
| Stage 3 all units                | \$ -    | \$ 6.15     | \$ 6.45     | \$ 6.69     | \$ 6.95     | \$ 7.23     |

### Drought Rate Surcharges - Deer Lodge Park (\$/CCF)

| \$ per Billing Unit <sup>1</sup> |         | Proposed    | Proposed    | Proposed    | Proposed    | Proposed    |
|----------------------------------|---------|-------------|-------------|-------------|-------------|-------------|
| Tier Volume                      | Current | Jan 1, 2016 | Jan 1, 2017 | Jan 1, 2018 | Jan 1, 2019 | Jan 1, 2020 |
| Stage 1 all units                | \$ -    | \$ 0.85     | \$ 0.89     | \$ 0.93     | \$ 0.97     | \$ 1.01     |
| Stage 2 all units                | \$ -    | \$ 2.16     | \$ 2.16     | \$ 2.16     | \$ 2.16     | \$ 2.16     |
| Stage 3 all units                | \$ -    | \$ 9.63     | \$ 9.63     | \$ 9.63     | \$ 9.63     | \$ 9.63     |

### Drought Rate Surcharges - Deer Lodge Park (\$/CCF) Alternate

| \$ per Billing Unit <sup>1</sup> |         | Proposed    | Proposed    | Proposed    | Proposed    | Proposed    |
|----------------------------------|---------|-------------|-------------|-------------|-------------|-------------|
| Tier Volume                      | Current | Jan 1, 2016 | Jan 1, 2017 | Jan 1, 2018 | Jan 1, 2019 | Jan 1, 2020 |
| Stage 1 all units                | \$ -    | \$ 0.85     | \$ 0.88     | \$ 0.92     | \$ 0.96     | \$ 0.99     |
| Stage 2 all units                | \$ -    | \$ 2.16     | \$ 2.16     | \$ 2.16     | \$ 2.16     | \$ 2.16     |
| Stage 3 all units                | \$ -    | \$ 9.63     | \$ 9.63     | \$ 9.63     | \$ 9.63     | \$ 9.63     |

<sup>1</sup>One Billing Unit is One Hundred Cubic Feet or 748 gallons.

**Executive Department**  
**State of California**

**EXECUTIVE ORDER B-36-15**

**WHEREAS** on January 17, 2014, I proclaimed a State of Emergency throughout the State of California due to severe drought conditions, which persist after four years; and

**WHEREAS** California is experiencing a range of extreme weather events such that the state must simultaneously prepare for a fifth year of drought and the possibility of major winter storms driven by the warming trend in the Pacific Ocean known as El Niño; and

**WHEREAS** the ongoing drought continues to affect water supplies, agriculture, businesses, and communities, and is further stressing California's fish and wildlife; and

**WHEREAS** wildfires have damaged critical infrastructure, including power plants, and hundreds of thousands of acres are and continue to be vulnerable to debris and mudslides due to scarring from significant wildfires in recent years; and

**WHEREAS** the magnitude of the severe drought conditions and wildfires continues to present threats beyond the control of the services, personnel, equipment, and facilities of any single local government and require the combined forces of a mutual aid region or regions to combat; and

**WHEREAS** under the provisions of section 8558(b) of the Government Code, I find that conditions of extreme peril to the safety of persons and property continue to exist in California due to water shortage, drought conditions, and wildfires; and

**WHEREAS** under the provisions of section 8571 of the Government Code, I find that strict compliance with various statutes and regulations specified in this order would prevent, hinder, or delay the mitigation of the effects of the drought and wildfires.

**NOW, THEREFORE, I, EDMUND G. BROWN JR.**, Governor of the State of California, in accordance with the authority vested in me by the Constitution and statutes of the State of California, in particular sections 8567 and 8571 of the Government Code, do hereby issue this Executive Order, effective immediately.

**IT IS HEREBY ORDERED THAT:**

1. The orders and provisions contained in my January 17, 2014 Proclamation, my April 25, 2014 Proclamation, and Executive Orders B-26-14, B-28-14, and B-29-15 remain in full force and effect except as modified herein.

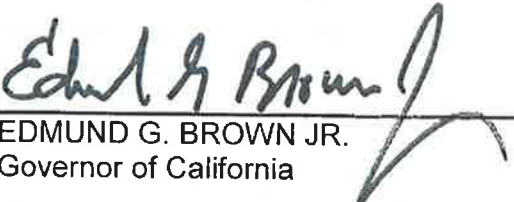
2. To demonstrate the feasibility of projects that can use available high water flows to recharge local groundwater while minimizing flooding risks, the State Water Resources Control Board and California Regional Water Quality Control Boards shall prioritize temporary water right permits, water quality certifications, waste discharge requirements, and conditional waivers of waste discharge requirements to accelerate approvals for projects that enhance the ability of a local or state agency to capture high precipitation events this winter and spring for local storage or recharge, consistent with water rights priorities and protections for fish and wildlife.
3. If drought conditions persist through January 2016, the Water Board shall extend until October 31, 2016, restrictions to achieve a statewide reduction in urban potable water usage. The Water Board shall consider modifying its existing restrictions to address uses of potable and non-potable water, as well as to incorporate insights gained from existing restrictions. The California Public Utilities Commission is requested to take similar action with respect to investor-owned utilities providing water services.
4. Of the \$15 million appropriated in Item 3940-101-0679 of the Budget Act of 2015, the State Water Resources Control Board shall use up to \$5 million for permanent solutions that provide safer, cleaner, and more reliable drinking water to households served by water systems serving less than 15 drinking water connections or households served by domestic wells or other individual water supplies. The Water Board shall prioritize funds to public agencies and other entities eligible for funding under Water Code section 13442, but the Water Board may provide direct assistance to well owners without water for alternative safe drinking water supplies, if an entity eligible under Water Code section 13442 is unable or unwilling to provide assistance.
5. The Energy Commission shall expedite the processing of all applications or petitions for amendments to power plant certifications issued by the Energy Commission for the purpose of remediating any wildfire damage and to restore power plant operation by authorizing emergency construction activities including demolition, alteration, replacement, repair or reconstruction necessary for power plant operation. Title 20, section 1769 of the California Code of Regulations is hereby waived for any such petition, and the Executive Director of the Energy Commission shall approve such petitions as he deems necessary. The Energy Commission shall give timely notice to all relevant local, regional, and state agencies of any petition subject to this directive, and shall post on its website any such petition.

6. For purposes of carrying out directives in this Executive Order, Division 13 (commencing with section 21000) of the Public Resources Code and regulations adopted pursuant to that Division are hereby suspended. This suspension applies to any actions taken by state agencies, and for actions taken by local agencies where the state agency with primary responsibility for implementing the directive concurs that local action is required, as well as for any necessary permits or approvals required to complete these actions. This suspension, and those specified in paragraph 26 of Executive Order B-29-15 and any similar suspension specified in any of the orders listed in Paragraph 1 shall remain in effect until the drought state of emergency, or wildfire state of emergency with respect to directive 16, is terminated.
7. For purposes of carrying out directive 5, Chapter 3.5 (commencing with section 11340) of Part 1 of Division 3 of the Government Code is suspended for the development and adoption of regulations or guidelines needed to carry out the provisions in this Order.

This Executive Order is not intended to, and does not, create any rights or benefits, substantive or procedural, enforceable at law or in equity, against the State of California, its agencies, departments, entities, officers, employees, or any other person.

**I FURTHER DIRECT** that as soon as hereafter possible, this order be filed in the Office of the Secretary of State and that widespread publicity and notice be given of this order.

**IN WITNESS WHEREOF** I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 13th day of November 2015.

  
EDMUND G. BROWN JR.  
Governor of California

**ATTEST:**

\_\_\_\_\_  
ALEX PADILLA  
Secretary of State