

1. What contributes to the increases in labor compensation and benefits? Can the Board comment on the Cost of Service Study's Table 1B with respect to inflationary assumptions for compensation and benefits?

The increases in labor compensation and benefits is driven by the increasing cost of healthcare benefits. Employer-provided healthcare premiums have been increasing over the last several years with the implementation of the Affordable Care Act. The majority of the nation's employers saw a double-digit increase to premiums over the last year.

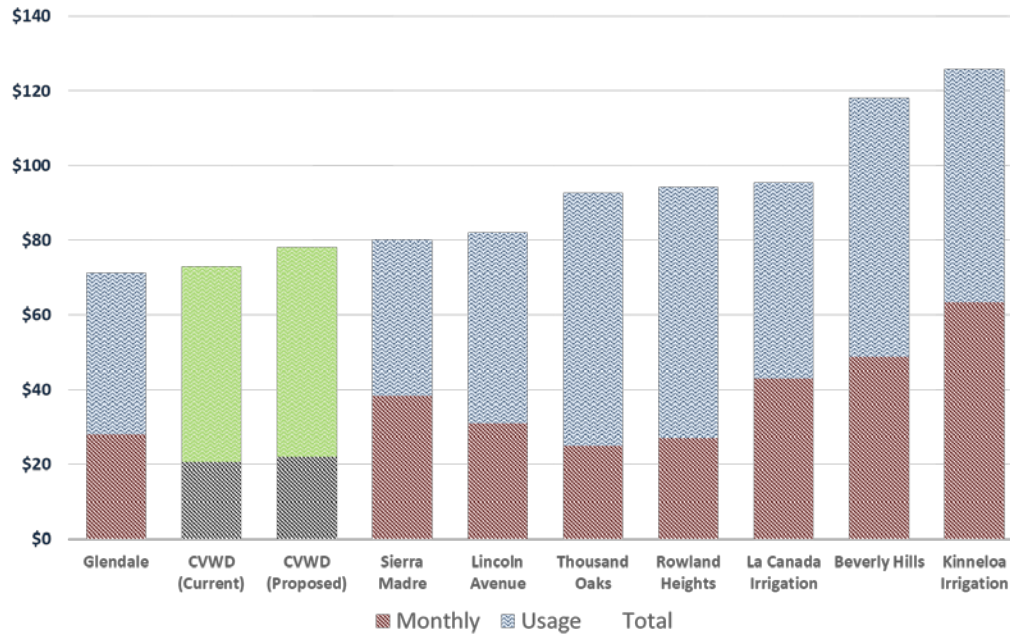
To mitigate these increases and their impact to customers, the District covers a limited amount of these premiums; employees contribute to make up the difference. Even with these cost-saving measures, the overall cost of benefits continue to rise. Healthcare coverage is a benefit based on a negotiated contract between the District and its employees. Such coverage is similar to benefits provided by many other companies and agencies throughout the State that are similarly affected by economic forces beyond their control.

Cost of living adjustments are also based on the negotiated contract (collective bargaining agreement). The cost of living adjustments are capped at 90% of CPI, or 10% less than inflation.

2. How do rates compare with other cities and water districts?

Just as a car may be compared by relevant characteristics such as engine size, car class, usage etc., rates for water districts are compared by their mix of relevant factors. These include factors such as number of customers, source of water (is the water imported or is pulled from local ground sources?), topography, property tax revenue and several other factors. For example, elevation gain is a major factor due to the additional power costs to pump the water up the hill and the additional reservoirs and other assets to serve the various pressure zones. By the same token, certain neighboring agencies are not appropriate for comparison. Glendale, for example, has many times the number of customers that CVWD has. Also, Glendale has a greater proportion of lower topography over which to serve its water.

The chart below shows how CVWD's rates compare to those of comparable agencies. Note that the monthly service charge (the portion of the bill charged regardless of water usage) is the lowest among comparable agencies. Also note that the rates comparison uses an average use of 11,200 gallons per month based on data availability for other agencies.



3. What is the net bill increase for range of water use?

The typical residential user in the District's service area uses 8.5 units per month. The net bill increase for such customer will be \$5.46 per month. Bill impacts for low and heavy users are shown in the table below.

Usage Level	Very Low	Low	Typical	Heavy	Very Heavy
Monthly Usage	3 units	5.5 units	8.5 units	13.5 units	17.5 units
Monthly Increase	\$4.00	\$4.53	\$5.46	\$7.01	\$8.85

4. Can the District review the Parcel Allocation Development Methodology on page 79 of the Cost of Service Study to investigate a possible Outdoor Variance for large lot owners?

The Parcel Allocation Development Methodology refers to what is more commonly known as a Water Budget Rate Structure. The District has considered and continues to consider this or a similar method for collecting rates from its customers. There are some advantages to a water budget billing structure. In addition to the potential rate relief to large lot owners, the rate structure is effective at encouraging efficient water use. Additionally, it may create greater revenue stability for the District.

There are also several prohibitive factors. One such factor is the significant cost needed to upgrade the District's billing, finance, and customer service systems to accommodate the much more complicated rate structure. Another factor is the current legal landscape as it pertains to Proposition 218, the law that guides the fairness/equity of various rate structures. There are currently several cases in the State's court system challenging water budget and similar rate structures.

The high cost of changing to a water budget rate structure combined with the uncertainty of having to further modify or even rescind a water budget rate structure in the future are prohibitive factors that currently outweigh the benefits.

5. With the recent water restrictions lifted, what increased revenue will the District collect that could offset the proposed rate hikes? What steps need to be taken to stop these double-digit increases every year?

Over the past five years the District has increased rates, as needed. The maximum increase to the quantity charges was 5.8% in 2014; the maximum increase to the monthly service charges was 7.5% in 2016.

Revenue is not expected to return to pre-water use restriction levels based on a number of factors. Many customers have adopted drought-tolerant landscapes and water-efficient fixtures, meaning they will never return to the same level of consumption. Others have committed to a permanent change in lifestyle in terms of their relationship with using water in a water-scarce desert environment.

The extended drought has also reduced the available, low cost, local groundwater which has resulted in increased costs based on having to purchase expensive imported water. The low groundwater levels also increase pumping and maintenance cost and shorten the useful life of pumping equipment.

Additionally, revenue from increased water consumption is not the only consideration for maintaining operations. The District imports water, and the cost of water itself increases on an annual basis. Just as the cost of groceries, education, cable bills and housing increase, costs for the District increase as well, from electricity to insurance premiums to the materials used to repair broken water mains and other leaks.

District staff juggle many factors and push and pull on a variety of levers. In addition to the operating costs described above, the District needs to maintain the infrastructure required to deliver safe and reliable water to customers. One national concern pertains to the nation's aging water infrastructure. The District is no exception with the average age of District assets approaching 50 years and some facilities having been in service over 70 years.

Yet, recognizing the impact to ratepayers, the District has chosen over the last few years to use its reserve funds to minimize rate increases. The reality is that the District operates in the same inflationary economic world that the District's customers and surrounding businesses operate in.

6. Can each elected Board Director tell us how they will vote on the rate increase?

Board members vote on the rate increase based on a body of information that staff has presented since March 2017 and will continue to present up to the date of the vote on June 20, 2017. This

meeting is open to the public, and members of the community may choose to attend to find out how the Board voted and why.

7. Although the Budgets are available on the web site, are the year-end actuals available to compare actual performance to the Budget?

Year-end actuals are available in the District's audited financial statements and are available at cvwd.com or upon request. This is a transparent process guided by laws and regulations, and the District encourages the community to read these financial statements to better appreciate the many dynamics that factor into the District's decision-making process.

8. Can the District include some quantifiable and measurable goals to control or cut costs?

As an elected body, the Board is motivated to ensure that District staff continue to exhaust options that control or cut costs. The Board is very active and informed, and it scrutinizes and questions every aspect of the budget. That said, the following are a few measures the District uses to control and cut costs –

- When employees retire from or otherwise leave the District, the District leaves the position unfilled to the extent possible. These are not easy decisions, as the District already runs a “lean” staff/crew, many of whom are cross-trained to wear multiple hats and are additionally burdened, particularly in emergency situations such as water main breaks and other leaks.
- Imported water is much more expensive than water from ground sources, and the District is vigilant about the availability of groundwater sources for offsetting imported water. For example, a newly constructed well on the Rockhaven site is projected to increase total groundwater production by 18%.

9. Can the District set a larger Tier 1 bracket?

The brackets, or water use ranges, for Tiers 1, 2 and 3 have been established based on the Cost of Service Study as required by Proposition 218, a State law. The primary criteria used in establishing the unit cost of water in each bracket includes: 1) the availability and cost of lower-cost groundwater supplies vs higher-cost imported water supplies; 2) the cost of treating and delivering water to customers' homes; and 3) the demand a customer's level of water use puts on the water system.

The primary principles guiding the development of tier sizes include: 1) affordability for essential use; 2) water use efficiency; and 3) revenue stability to ensure the District continues to deliver safe and high-quality water while retaining excellent customer service.

Tier 1 includes the entirety of the lower-cost groundwater, with Tier 2 accounting for the more expensive groundwater water and Tier 3 accounting for the most expensive imported water (Foothill). As Tier 1 customers' usage patterns put less demand on the water system infrastructure, the cost of demand – also called “peaking factors” – is lower than the costs for Tiers 2 and 3. The

cost of water delivery is the same for all tiers, and that cost is spread between the three tiers as such.

Affordability for Essential Use is listed first among primary rate setting guiding principles, and this reflects the District Board and staff's emphasis on this principle as being of the utmost importance. However, it is not the only principle. The Tier 1 size as established represents the balance between laws such as Proposition 218, other guiding principles, and the pricing criteria discussed earlier.