

CARPINTERIA VALLEY WATER DISTRICT

Is Improved Direction Needed?

SUMMARY

The Carpinteria Valley Water District (CVWD) has delivered an essential product but has experienced the need for an exceptional amount of facility maintenance and upgrades. This has resulted in outstanding loans of \$33.8 million against a total operating budget of less than \$5 million per year. Coupled with the expense of a State Water option which it does not need and uses little, the district is strapped with non-operational yearly expenses which exceed \$5 million. Total annual expenses therefore exceed \$10 million, giving rise to high water rates. A serious imbalance in monthly service charges between small and large meters puts costs on the small user which are 2 ½ times the going rate in the general area. Recommendations by the Grand Jury include restructuring charges and selling State Water options which may reduce water charges to residential users.

INTRODUCTION

The Grand Jury investigated CVWD operations as a result of a formal complaint. Does the district provide adequate water services for all its customers at a reasonable charge? Questions arose after the 1991 voter-approved purchase of 2000 acre feet (AF)¹ of State Water during a serious drought period. There were additional community complaints as water rates began to escalate.

The Grand Jury investigated the water district operating procedures, specifically looking at monthly service charges and the water rates and how they are utilized to pay district costs. The Grand Jury researched available records, read newspaper articles, attended meetings and interviewed district officials and members of the community.

OBSERVATIONS AND ANALYSIS

District Overview

The CVWD is the water purveyor for over 19,000 residents. The district provides water to 4168 service connections encompassing 17 square miles, including the City of Carpinteria.

¹ An acre foot is defined by the volume of water necessary to cover one acre of surface area to a depth of one foot.

CVWD was established in 1941 as a special district. The district is governed by a five-member board of directors elected by the registered voters within the district. Public protest over high water bills began to increase when “meter equivalency” fees were implemented. More protests occurred over construction of a large water storage tank and related truck route. Notwithstanding the board’s controversial and unpopular decisions, three board members ran unopposed in the November 2006 election.

The rules and regulations of the CVWD, adopted by the board in 1997 and periodically updated, determine specific conditions of water service between the customer and the district. The rules cover everything including application for service, water rates and disputed bills.

The general manager is the administrative head of the district responsible for policy implementation as well as the day-to-day functioning of the district. Three supervising managers report directly to him: (a) the business manager is responsible for finance and accounting activities for the district including debt, investment and risk management; (b) the district engineer is in charge of evaluating, designing and implementing operational and capital improvements as well as oversight of consultants; and (c) the operations and maintenance manager is responsible for overseeing operations, repair and maintenance of the wells, pumps, reservoirs, pipelines along with fleet services and building and ground maintenance.

The district is run by an experienced staff of 18. This number has not grown in 12 years although numerous new state and federal regulations and staff time consumed by complaints, general operating expenses and maintenance have increased substantially.

Water Sources

There are three sources of water available to the CVWD: (1) ground water pumped from local wells, (2) Lake Cachuma Water and (3) water options from the State Water Project (SWP).

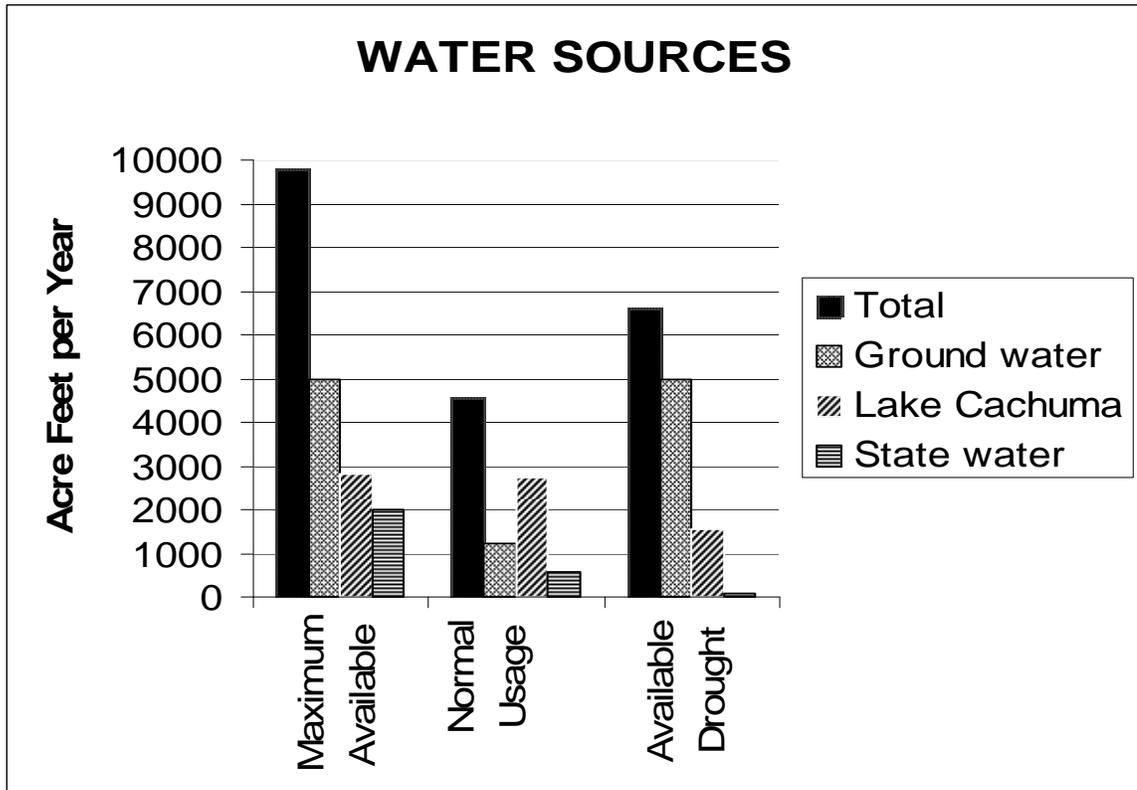
Groundwater is pumped from five wells in the Carpinteria Valley Groundwater Basin and provides 50% of the district’s water. All estimates of available ground water exceed 5000 AF per year.

The remaining half of the district’s water is surface water which comes from Lake Cachuma and the SWP routed through Lake Cachuma. Lake Cachuma water is treated at the City of Santa Barbara Cater Treatment Plant. It flows toward the Carpinteria Valley through a federally owned distribution system which includes the South Coast conduit, the Ortega Reservoir and the Carpinteria Reservoir. Both reservoirs are essential for distribution and storage in the Carpinteria Valley.

The allocation of Lake Cachuma water is currently 2800 acre-feet per year but is reduced to 1540 acre-feet in a drought year. State water is contracted by the CVWD at 2000 acre-feet per year. Projected deliveries of this State Water can vary between a

possible 94% of the contracted water down to 4% in a drought year. Typically, droughts in northern and southern California do not coincide. In fiscal year (FY) 2006 the district was allocated 60% of its SWP water option.

The current demands for water are substantially below the maximum available supplies. The chart below illustrates various water sources in FY 2004—maximum available, normal usage and availability during a drought.



Usage is below maximum available water and is below water available in a drought. Note that the availability of State Water in a California drought is very small. In a local drought, groundwater can be used even if State Water is only partially available.

Data indicate that 5000 acre-feet of water is a safe yield for the Carpinteria Valley Water Basin. Additionally, private pumping of groundwater extracts 3000 acre-feet annually. Carpinteria Basin groundwater is important mainly because it contains almost none of the organic materials that are found in Cachuma Lake water. A district board member indicated that an earthquake could disrupt groundwater, making the SWP a backup. An earthquake could affect the pipeline from Lake Cachuma to Santa Barbara, disrupting both Lake Cachuma water and State Water.

Four hundred acre-feet of state water have been sold to Plains Exploration and Production in Lompoc, in the form of an option, where \$300,000 per year is paid whether the water is used or not. If the option were executed, a total of \$600,000 would be paid per year. The \$300,000 currently amounts to approximately 10% of the

total annual cost of State Water, and if exercised, would reduce the maximum available State Water to CVWD to 1600 acre-feet.

How does the CVWD establish the price of water?

During a process that begins with the budget preparation, the staff and Board of Directors determine the requisite water charges. This process has been complicated by Proposition 218, passed in 1996. The law allows 45 days for property owners to protest the rate increase in the form of a letter. If more than 50% of the property owners submit valid signatures opposing an increase, the rates cannot be increased. If the board proposes to raise water rates, citizens have the option of utilizing this “opt-out initiative.” In 2006, the State Supreme Court upheld the application of Proposition 218 for water districts, mandating that only property owners can sign the letter.

Water Charges

Water charges have two components, monthly service charge (meter size) and water rate (water usage). Both components appear on the water bill, and each has a different structure. All users pay both charges. The monthly service charge is made up of the following categories: basic charge, State Water Project option and Capital Improvement Program (CIP) charges.

**Table 1
Current CVWD Monthly Service Charges**

METER SIZE IN INCHES	BASIC SERVICE CHARGE	STATE WATER PROJECT CHARGE	CAPITAL IMPROVEMENT PROGRAM	TOTAL SERVICE CHARGE
3/4	\$ 3.41	\$ 24.84	\$21.40	\$ 49.65
1	5.68	41.40	21.40	68.48
1 ½	11.35	82.80	21.40	115.55
2	18.16	132.48	21.40	172.04
3	36.32	264.96	21.40	322.68
4	56.75	414.00	21.40	492.15
6	113.50	828.00	21.40	962.90
8	261.05	1904.04	21.40	2186.85

Multiple residents on a single meter are each charged an equivalent monthly service charge as if they had an individual meter. Residences located on agricultural property are charged a residential offset fee, the same as the meter equivalent charge. In 2004, this equivalency service charge began and resulted in large increases in residential water bills. The charge was applied by multiplying the number of users by the single meter lowest service charge. Table 1 details these monthly service charges.

Residential users pay the major part of the total service charge but use less than half the water. In contrast, agricultural users pay only 15% of the total monthly service charge but use 47% of the water. The question then arises as to why the agricultural

customers are not paying a more significant portion of the service charges. The answer lies in the rate structure. Larger diameter meters, used by agricultural customers, are not charged proportionately to their meter capacity.

The published capacity rate for a 4-inch meter is 700 gallons per minute (gpm) as compared to 30 gpm for a ¾ inch meter. The monthly service charge for a ¾ inch meter is \$49.65. If multiplied by 700/30, the monthly service charge for a 4-inch meter would be \$1158.50 instead of \$492.15

Another service charge disparity is the Capital Improvement program (CIP) charge. The monthly service charge of \$21.40 for CIP is the same for all meter sizes. Therefore, larger meter users pay no more for capital improvements than smaller meter users.

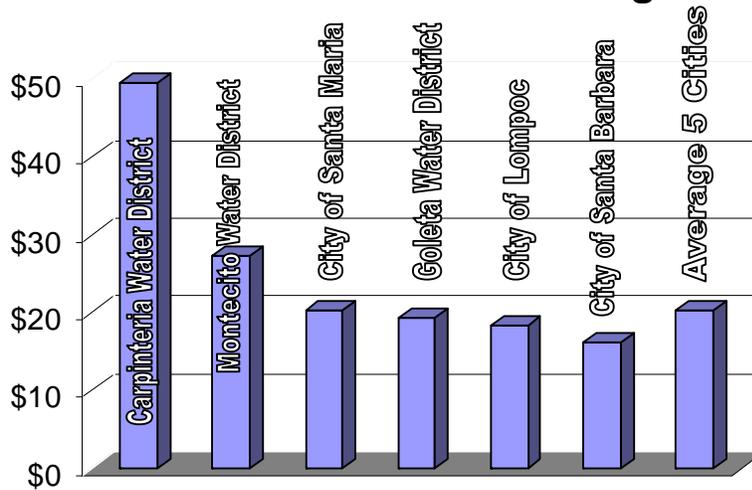
Table 2

Monthly Service Charge for a ¾ inch Meter

Carpinteria Valley WD	\$49.65
Montecito Water District	\$27.30
City of Santa Maria	\$20.31
City of Lompoc	\$19.26
Goleta Water District	\$18.42
City of Santa Barbara	\$16.19
Average of above	\$20.30

During the writing of this report, a notice of an increased monthly service charge was announced. Charges are proposed to increase 10% for residential, 11% for commercial and 5% for agriculture. Multiple users on one meter (equivalency rate customers) may have an increase of 6%.

3/4 inch Meter Service Charge



Water rates vary with type of user and quantity of usage. Residential, commercial, public entities, industrial and agriculture users have different water rates. Agricultural users have the lowest user rate of all user types. In addition, increased land elevations (such as Shepard’s Mesa) have higher monthly service charges due to costlier pumping. The monthly service charge in CVWD is more than two times the average of other districts. See Table 6 at the end of this report for more information.

How are the funds used?

The district’s water charges also include the water supply, pumping, water treatment, transportation, distribution and a portion of the operating expenses at Lake Cachuma. District operating costs also include administrative expenses. Moreover, the monthly service charge pays all debts including the State Water Project, capital improvements such as Ortega and Carpinteria Reservoir covers, a new well and filtration plant, the 3.5 million gallon storage tank and miscellaneous capital projects (labor costs, contractors, insurance, energy, office supplies, etc.). The headquarters well was replaced and other wells are “on hold” as replacement funding is not available.

By using fixed rates to pay these costs, the district can predict the amount that will be collected. This enables the district to collect the money it needs for major fixed cost and debt obligations regardless of customer water usage. In addition to the obvious accounting advantages, this allows the district to maintain a AAA bond rating.

A large number of facilities still require repair to maintain water delivery. Water valves need to be replaced due to aging. The El Carro Well was repaired and a new headquarters well was installed. The Cater Water Filtration Plant in Santa Barbara must be maintained and CVWD must pay its fair share of the cost. Additional debt has resulted from covering the Ortega and Carpinteria Reservoirs. The \$15 million price tag exceeded the previous estimate.

Rancho Monte Alegre (RMA) water tank

In 2004, CVWD annexed 2300 acres of Rancho Monte Alegre (RMA) land. Additionally, lands of about 3000 acres are set aside as a conservation easement. The district stated that the annexation was necessary to prevent the ranch from drilling wells or diverting creek waters. RMA plans to build 24 homes on the 40 buildable acres. Residential and agricultural users on the RMA site are projected to use about 500 AF with high connection fees. Plans for housing construction will be submitted in the future to the County Planning Department for development approvals.

Flooding occurred in 2005 when the outlet portion of the detention basin overflowed onto adjacent neighbors' property. Concerns over appropriate engineering techniques arose. CVWD hired and approved consultant work, but due to district autonomy, did not coordinate with county engineering. It is not clear that such collaboration would have prevented the flooding.

As a result of construction of a \$9 million 3.5 million gallon water storage tank on the RMA property, issues arose regarding the tank, access road and catch basin, including necessity of the project, the approval process and construction difficulties. The tank and access road were constructed on ten acres of RMA in 2006. The road was paid for by the owners of RMA, giving access to CVWD. As the land is owned by RMA, a memorandum of understanding established a permanent CVWD easement for access to the tank and road.

The water tank is designed to provide water to allow for the blending of ground and surface water and to provide emergency water. Blending occurs when groundwater, which is high quality and requires only small amounts of disinfectant, is mixed with treated surface water.

Community opposition to the project amplified in June 2006 when Foothill Road residents heard that there would be a construction truck route through their neighborhood, on roads which they say are narrow, winding and dangerous. Semi-trucks were needed to haul debris associated with excavation necessary for the undergrounding of the tank. In the end, the RMA owners determined that they could use the large rocks on site, thus reducing hauling. For a brief period the district employed a "public relations" expert, in part to handle complaints.

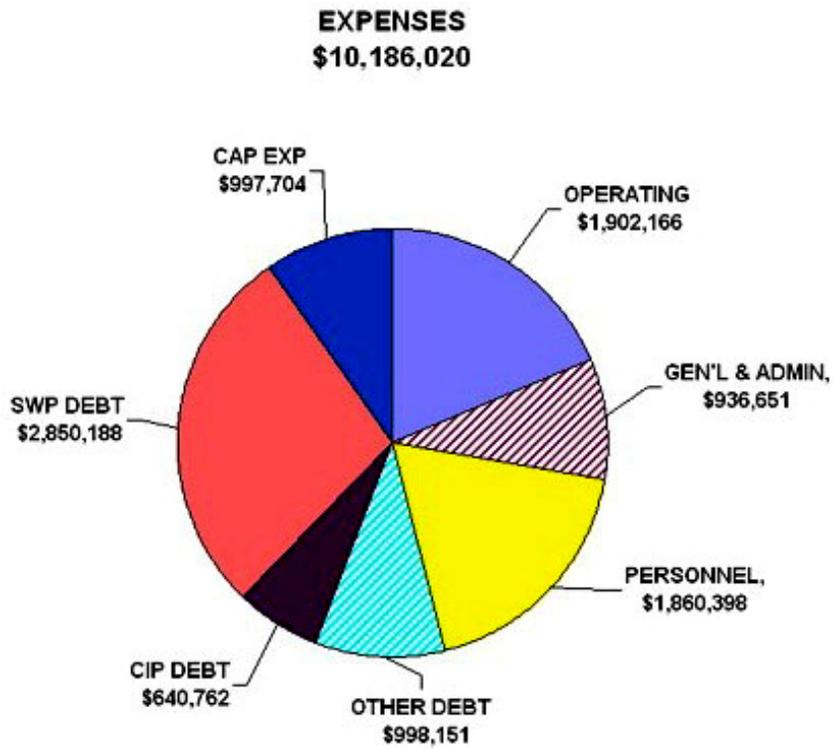
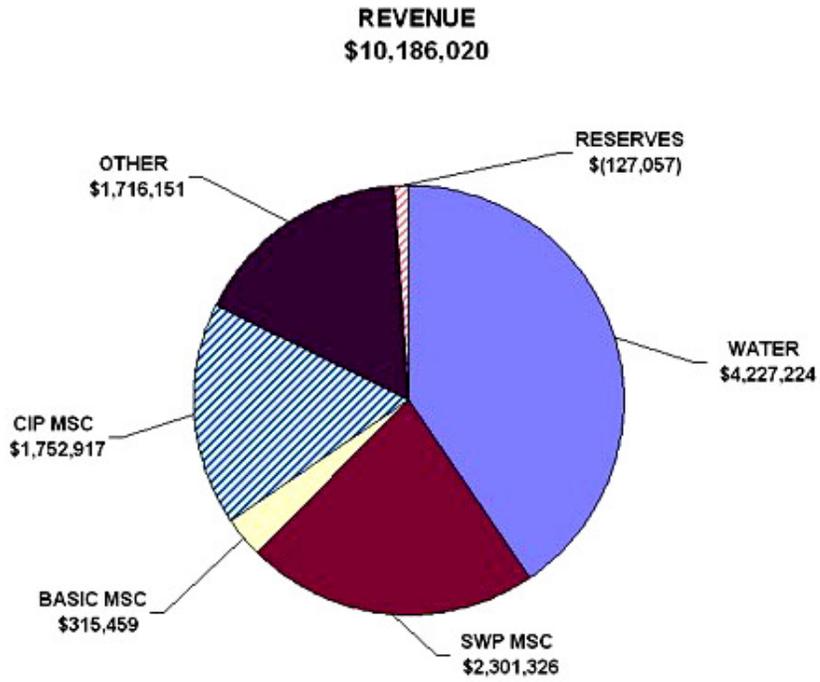
The Budget

The published FY 2006-2007 expense budget is \$10,186,020. This budget includes debt service, yearly capital expenses and State Water fixed charges totaling \$5,486,805. At the same time, the total personnel and operating costs are \$4,699,215.

Table 3

FY 2006-7 Expense Budget	
(Rounded to nearest thousand)	
Personnel	\$1,860,000
General and Administration	\$937,000
Operation costs	\$1,902,000
Total Operations	\$4,699,000
State water fixed charges	\$2,850,000
Debt service	\$1,639,000
Capital projects	<u>\$998,000</u>
Total non-operations	\$5,487,000
TOTAL	\$10,186,000

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**TABLE 4
LOANS AND STATE WATER DEBT**

Project	Loan Type	Loan Principal	2006-2007 Debt Service
Cater Water Filtration Plant in Santa Barbara	Cachuma Project Authority Bonds Dept. of Water Resources	\$1,885,000	\$38,200
Ortega Reservoir Cover	Joint Loan w/Montecito	\$9,950,000	\$208,000
Carpinteria Reservoir Cover and Headquarter Well	Dept. of Water Resources Loan	\$8,183,543	\$523,102
Cater Water Filtration Plant in Santa Barbara	Dept. of Water Resources Loan w/Santa Barbara	\$3,840,000	\$228,849
Previous COP and El Carro Well	Certificate of Participation (COP)	\$9,995,000	\$640,762
Totals		\$33,853,543	\$1,638,913

Adding the fixed charges for State Water:

SWP Fixed Charges through FY 2035	~\$80,000,000	\$2,850,188
Totals with State Water	~\$113,000,000	\$4,489,101

The Bottom Line

The cost of capital improvements has resulted in the highest water service charges in the county. The amount of capital costs exceeds operating costs as shown in Table 3. Therefore, if additional capital improvements are necessary, expenses can be covered only by reducing operating costs or raising water charges.

Including the additional cost for the pipeline to Lake Cachuma, the cost of the State Water option is \$1500 per AF in South County as compared to \$1000 per AF in North County. This makes it difficult to sell the State Water option to North County in order to recover the original SWP option cost. One solution would be to sell the option. If the entire option were sold at \$1000 per AF, it would reduce the annual expenses by \$2,000,000, or 20% of the total CVWD expense budget.

The other solution is to raise water charges. If service charges were increased for users with large meters, the charges could be more equitable and would help pay for capital improvements and the debt service.

FINDINGS

Finding 1

The dedicated Carpinteria Valley Water District staff must respond to costly requirements and simultaneously deal with customer concerns about increasing rates.

Finding 2

Debt service for capital projects and the State Water Project amount to 54% of the total budget.

Finding 3

Carpinteria Valley Water District monthly service charges are more than twice those for other local water districts. This is partly due to the disparate charges between agriculture and residential users.

Finding 4

Santa Barbara County government has no direct authority over Carpinteria Valley Water District operations.

Finding 5

Barring very unlikely conditions, Carpinteria Valley Water District does not need the State Water option.

Finding 6

Public relations relating to the storage tank at Rancho Monte Alegre were poorly handled but the tank is a necessary capital improvement for the district.

RECOMMENDATIONS

Recommendation 1

The Carpinteria Valley Water District should not take on additional capital improvements that are not mandated by law or required to protect a reliable water supply.

Recommendation 2

The Carpinteria Valley Water District should consider restructuring water service charges to more equitably balance charges between residential and agricultural users.

Recommendation 3

The Carpinteria Valley Water District should solicit review and comment from the County of Santa Barbara and the City of Carpinteria prior to initiation of all future major development projects.

Recommendation 4

The Carpinteria Valley Water Board should sell state water to reduce water charges to the district or show cause to the community as to why the option should be maintained.

REQUEST FOR RESPONSE

In accordance with Section 933(c) of the California Penal Code, each agency and government body affected by or named in this report is requested to respond in writing to the findings and recommendations in a timely manner. The following are the affected agencies for this report, with the mandated response period for each:

Carpinteria Valley Water District Board of Directors – 90 days

Findings	All
Recommendations	All

Santa Barbara County Board of Supervisors – 60 days

Finding	4
Recommendation	3

City of Carpinteria – 90 days

Finding	4
Recommendation	3

REFERENCES

1. Interviews with Carpinteria Valley Water District board members, Carpinteria Valley Water District staff, citizens of the district and county staff

2. "Water Supply and Demand Analysis Final Report," Carpinteria Valley Water District, dated 2/16/06
3. Carpinteria Valley Water District - Certificate of Participation, dated 5/17/06
4. Carpinteria Valley Water District - 2006-2007 Budget
5. Carpinteria Valley District Frequently Asked Questions - 10/5/06
6. Carpinteria Valley Water District and other websites
7. Dozens of newspaper articles, letters to the editor, public meetings

**Table 5
Water Charges
2006-2007 Budget**

	Residential	Fire	Industrial	Public Agency	Commercial	Agriculture	Totals
Basic Service Charge	\$167,199	\$23,147	\$14,478	\$9,929	\$20,730	\$79,977	\$315,460
SWP Service Charge	\$1,219,743	\$168,862	\$105,620	\$72,433	\$151,226	\$583,442	\$2,301,326
CIP Service Charge	\$1,556,722	\$1,284	\$17,205	\$14,381	\$65,484	\$97,584	\$1,752,660
Basic Meter Equivalent Charge	\$89,211						\$89,211
SWP Meter Equivalent Charge	\$650,808						\$650,808
Service Charge, Total	\$3,683,683	\$193,293	\$137,303	\$96,743	\$237,440	\$761,003	\$5,109,464
Water	\$1,977,159	\$0	\$178,264	\$152,079	\$545,874	\$1,373,848	\$4,227,224
Ag Residential Offset¹						\$84,132	\$84,132
Total Charges	\$5,660,842	\$193,293	\$315,567	\$248,822	\$783,314	\$2,218,983	\$9,420,820
Acre Feet, usage	1570		126	127	383	1971	4177

¹Ag Residential Offset is a "Meter Equivalent" which is a monthly service charge.

**TABLE 6
WATER RATES
IN SANTA BARBARA COUNTY**

		Carpinteria Water District	City of Santa Barbara	City of Lompoc	Montecito Water District	Goleta Water District	City of Santa Maria	
Service Charge	Flow Rate Gallons/min							
	5/8 inch	\$49.65	\$10.78	\$19.26	\$27.30	\$18.42		
	3/4 inch	\$49.65	\$16.19	\$19.26	\$27.30	\$18.42	\$20.31	
	1 inch	\$68.48	\$26.97	\$32.67	\$45.49	\$24.96	\$31.86	
	2 inch	\$172.04	\$86.30	\$101.96	\$145.57	\$58.09	\$69.64	
	3 inch	\$322.68	\$172.60	\$202.86	\$427.54	\$97.04	\$151.12	
	4 inch	\$492.15	\$269.68	\$321.25	\$545.90	\$144.57	\$251.89	
	6 inch	\$962.90	\$539.36	\$1,025.32	\$909.83	\$269.23	\$629.81	
Water Rates								
	per HCH							
	Residential							
		7HCF	\$2.51 ¹	\$2.56	\$2.30	\$3.47	\$3.71	\$2.214
		8HCF	\$3.11 ¹	\$4.29				\$2.626
		>15HCF	\$3.51 ¹	\$4.52				\$3.494
	Commercial	\$3.27	\$4.29		\$3.71	\$3.71		
	Agriculture	\$1.60	\$1.46		\$1.56	\$1.00		
	Reclaimed		\$1.62	\$4.01		\$2.17		

1. Higher rates at 350 and 650 foot pumping levels
HCF: Hundred cubic feet