



**Rancho
Water**

October 10, 2016

Carole D'Elia
Executive Director
LITTLE HOOVER COMMISSION
925 L Street, Suite 805
Sacramento, CA 95814

RE: PUBLIC HEARING WRITTEN TESTIMONY

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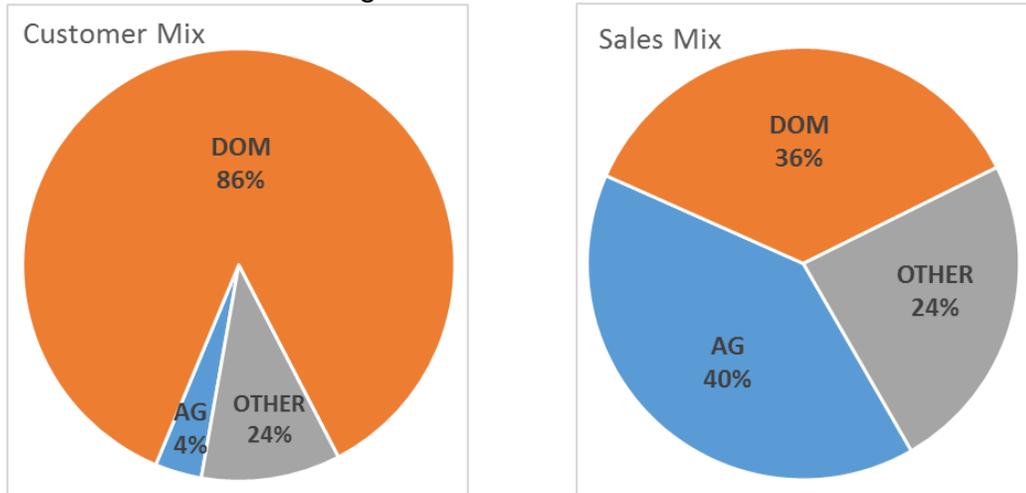
Dear Ms. D'Elia,

Rancho California Water District (District) is honored to accept the invitation to address your Commission at the upcoming October 27, 2016 public hearing on special districts in California, as a follow up to the Commission's May 2000 report, *Special Districts, Relics of the Past or Resources for the Future?* We appreciate the opportunity to provide you written testimony on the District's regional perspective in relation to climate change adaption, infrastructure and financial planning, including spending of reserves for long-term water supply demand/delivery in Southern California's growing Riverside County of agricultural and residential customers.

The District encompasses approximately 100,000 acres of land located in southwestern Riverside County and serves the area known as Temecula/Rancho California, which includes the majority of the City of Temecula, portions of the City of Murrieta, and other contiguous land in the unincorporated territory of the County of Riverside. The District is governed by a seven-member Board of Directors (the "Directors"), each serving alternate four-year terms. Development of the Temecula/Rancho California community began in 1964 when Vail Ranch was acquired by the partnership of Kaiser Corporations (Kaiser Aluminum & Chemical Corporation and Kaiser Industries Corporation) and Macco Realty Company. On August 16, 1965, to provide for a continuing and reliable water supply, the developers of Temecula/Rancho California formed the Rancho California Water District (the "Rancho District") over the easterly 41,000 acres of the Temecula/Rancho California development. The Santa Rosa Ranches Water District was organized on January 24, 1968, to serve the westerly 44,800 acres of land in the community of Temecula/Rancho California. On January 1, 1977, the Rancho District and the Santa Rosa Ranches District were consolidated in accordance with Riverside County Reorganization Nos. 76-34-4 and 76-34-5 under the name Rancho California Water District. Land areas within the District were designated as the Rancho Division for the original Rancho District and the Santa Rosa Division for the original Santa Rosa Ranches District.

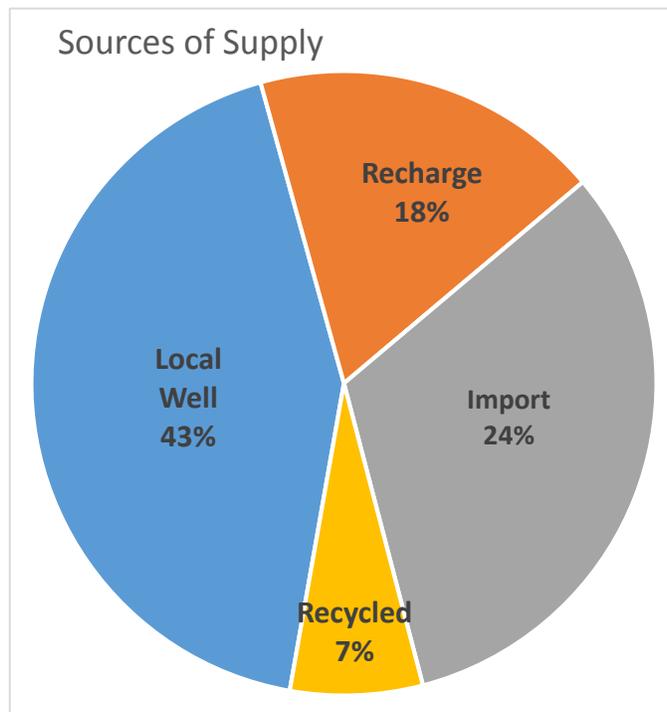


Historically, the District's customer base was comprised of a mix of agricultural, domestic, landscape, commercial, and miscellaneous water accounts. Considerable growth has occurred since the 1980s, primarily in domestic and commercial accounts, and the customer base has increased from about 5,000 to 45,000 customer accounts. The charts below depict the customer base today and the water use amongst them.



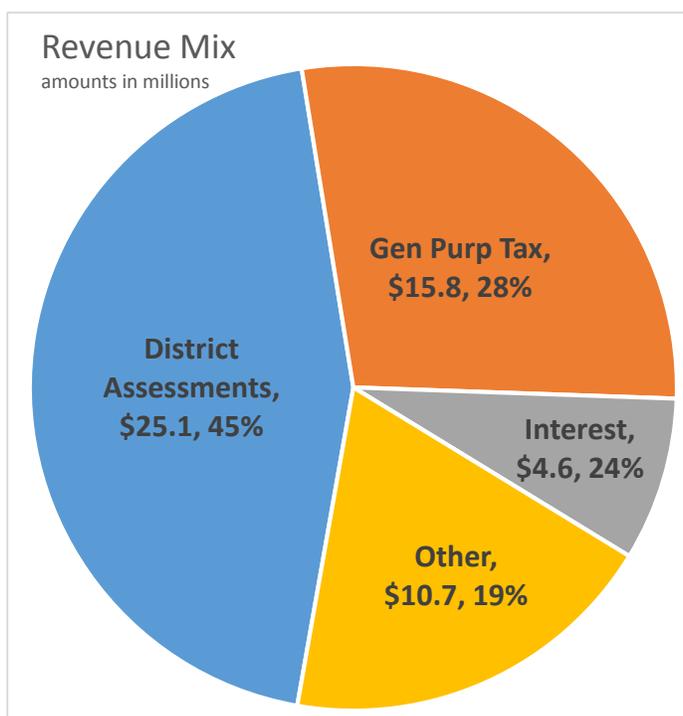
As can be seen from the charts above, the District serves a diverse customer group. While growth has occurred in the domestic and commercial side, agricultural has remained and is a significant part of the local economy and community culture. Agricultural accounts comprise only 4% of our customers, but they account for 40% of the water demand. The primary crops farmed in our service area include: wine grapes, citrus, and avocados.

To meet demands, the District has four primary water supply sources. The District resides over a local aquifer that provides not only 43% of current supply but is also significantly the least expensive supply source. The District also purchases untreated water from Metropolitan Water District of Southern California (MWD) and uses that water to recharge the aquifer and increase groundwater production. This amounts to 18% of our supply. The District also purchases "treated" water from MWD to meet the remaining demand. The treated water is about 500% more costly than local well water. The final water supply is recycled water, which is about 7% of our total supply. The District recycles and uses 100% of the wastewater it treats and purchases additional recycled water from an adjacent water district to further expand this supply.



Significant investments have been made and continue to be essential to build the infrastructure necessary to meet the current and projected demands of our service area. These investments at historical cost over the last 50 years amount to about \$900 million. The future capital facility requirements over the next 50 years including new facilities, resource-related facilities, and replacement facilities is projected to be \$2.4 billion. To plan for these facility needs, the District has a 50-year Long-Range Financial Plan (LRFP) that anticipates capital requirements, projects revenues, projects reserve requirements and uses, and projects borrowing requirements. This plan is reviewed and updated on an annual basis as part of the annual Budget process and is done in open public meetings.

The major revenue categories include District Assessments, share of the General Purpose Tax, Interest on reserves, and Fees/Charges/Grants. The District has a policy to use General Purpose Tax receipts exclusively for Debt Service on borrowings and Capital purposes. The General Purpose Tax is not used to offset Water Rates nor for "Operating" purposes. The District believes there is a strong nexus between "property values" and the "availability of water service" to the property and therefore feels using the General Purpose Tax for funding infrastructure to provide water service is appropriate. The chart on the right Budgeted Fiscal Year 2016-2017 non-operating revenues:



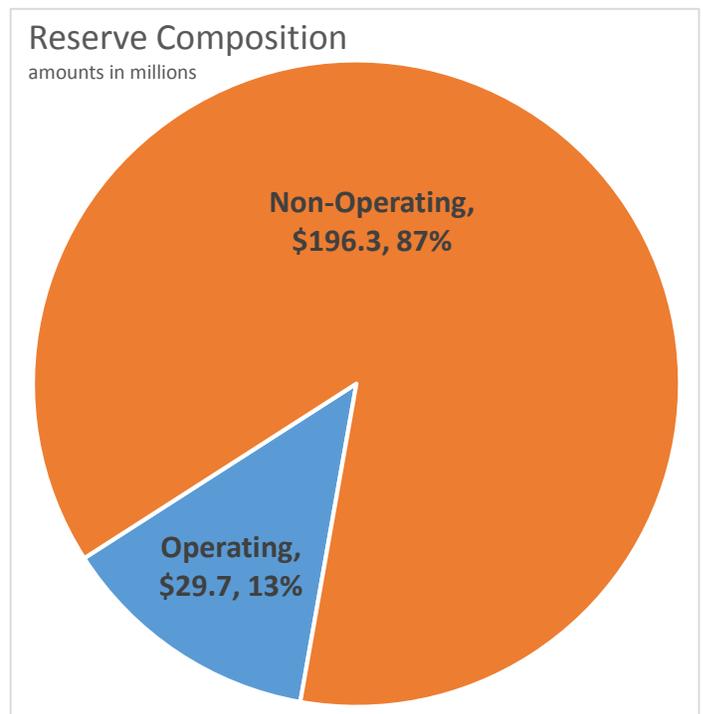
There are three major initiatives that the District has completed or are underway that significantly assist with water supply reliability/diversification/drought/climate change. Each of these involves leveraging the local assets, such as our open water reservoir, Vail Lake, and our local aquifer.

1. In 2010, the District completed the construction of a \$10 million raw water pipeline that will allow the District to purchase untreated water in periods of greater statewide supply surplus to replenish the water levels in Vail Lake. The benefit of this is that, when available, we can move water from wet parts of the state to our local area and store it for use in future dry years. Vail Lake can store up to 45,000 acre feet of water, which is about 75% of our annual demand.
2. In 2014, the District acquired approximately 7,500 acres of land surrounding Vail Lake for \$55 million, all funded through reserves. The acquisition provides water quality and supply benefits to the District. On the supply side, this acquisition resulted in the removal

of certain operating restrictions that limited the amount of water that could be used from Vail Lake, as a certain lake elevation was required to be maintained. With the removal of this restriction over the last two years, the District has already been able to use more water and save multiple millions in import purchases, as well as help meet demands during the drought. A future benefit of this is directly related to Climate Change in that we now appear to be seeing longer periods of dry years followed by a short period of a very wet year. The District will now be able to utilize more water during the dry year and draw the lake level down further, yet see the lake fill in the very wet year. Ultimately, the lake operation will be able to better reflect new projected rainfall events due to Climate Change.

3. In 2016, the District issued bonds to begin funding a conjunctive-use recharge program for the District's local aquifer. This project will provide the required facilities to recharge, recover, and treat up to 25,000 acre feet of water. Similar to Vail Lake, the District will be able to better manage and utilize the aquifer through dry periods and wet periods. This will allow more storage/replenishment in wet years and will also result in projected cost savings compared to treated-water purchases. This is about an \$18.6 million project and will be funded through bonds and reserves.

Use of reserves for funding of long-range infrastructure is critical to our plan. The District has two primary categories of reserves, Operating and Non-Operating. The Operating category is used exclusively for the annual operations of the District and includes items such as, working capital, rate stabilization reserves, and drought reserves. The District has a formal reserve policy adopted by the Directors that sets the criteria and target levels of these reserves. The District also has Non-Operating Reserves. The Non-Operating Reserves are restricted for infrastructure-related purposes. These reserves are used to either directly pay for Capital Infrastructure Projects or to pay the Debt Service on bonds issued to construct infrastructure. The Non-Operating Reserves make up the greatest portion of our reserves, as shown in the chart on the right.



The District used chlorine to treat its local water production. When the District purchases/imports treated water from MWD, this water is then treated by chloramination. While both treatment processes are acceptable the two are not compatible and will essentially cancel each other out when blended together. Historically, the District has two periods in the year where it



transitions from more or less of each supply source. This transition period is something our staff is adept at accomplishing. However, Climate Change seems to be having an impact on our customer demand patterns. For example, last winter we experienced some cool and wet weeks followed by very warm weeks and this pattern repeated. The weekly variation was so great that we had to modify our supply strategy to meet the varying demands and were unable to completely stop the blend of different treated water from occurring. Ultimately, we had to completely shut off our local supply and purchase five times more expensive water to ensure water-quality residuals remained. This resulted in an unplanned \$2 million expense, which was absorbed through the operating reserves.

The District is planning new chloramination facilities, approximately \$6.2 million, to change the treatment method for local water supply in the future to create compatibility with imported supply. About \$1 million of this is funded with reserves and the remainder will be bonded for. Additionally, the District has approved a \$500K project, funded with reserves to add additional re-check sample stations to better ensure accurate results of water-quality samples.

The District is currently underway with its formal Strategic Planning process. Climate change was identified in the previous Strategic Plan as a threat but is receiving greater attention in this update. I think the District is more on the front end of really trying to understand what Climate Change will mean to us on the macro level. This will result in additional future initiatives. One example includes Vail Lake Dam, whereby the District has been informed that the dam will no longer meet Maximum Flood Event possibilities. The District is working to identify fixes that may ultimately include replacing the entire dam. This is a \$35-\$50 million-dollar, unplanned requirement.

Another element of climate change is the potential impact to energy from hydroelectric power supply. The District has aggressively pursued alternative energy solutions and today meets approximately 25% of its total energy requirements through solar power.

The District engages its customers in the traditional methods of newsletters and website content. However, we have expanded some of our efforts. We have an aggressive social media campaign that includes, Facebook, Twitter, LinkedIn, and Instagram. One trend in customer communication is that it isn't "one size fits all" and therefore multiple avenues are required to meet today's demographic diversity.

One major step taken this year was the implementation of a quarterly public workshop we call "WaterTalk." This is a workshop to educate the public and stakeholders on water issues. We have brought in Scientist from JPL/NASA to talk about climate change and El Niño, we brought in representatives from the Department of Water Resources to discuss how California's water system operates and to educate on the Sierra Nevadas, we brought in farmers from the Central Valley to discuss their dealings with climate-change challenges compared to our local famers'.

We have also implemented Budget-Based Tiered Water Rates. This is a rate structure that communicates what efficient water use is for each customer's specific property. The budget is based on the number of people living in the home and the actual amount of landscape area at

the property. The budget also utilized real-time, daily weather information to determine the amount of water needed for landscaping that day. Additionally, this year we created a customer portal to enhance customer service experience by allowing customers to log onto their water account and see real-time, daily water-use throughout the month, including daily over/under real-time water budgets. Lastly, we provide up to one month of hourly water use information for each customer to see if they have a leak or when water is being used. This system has been an incredible communication tool for our customers.

RCWD currently participates with its MWD member agencies to coordinate regional-planning solutions and to utilize the benefits of MWD's Water Surplus & Drought Management Plan and Integrated Water Resources Plan.

RCWD has also lead the development of the Upper Santa Margarita River Watershed Integrated Regional Water Management (IRWM) coalition, through Proposition 84 funding, which is a collaborative effort to manage the significant range of water resources within the designated watershed/region. The IRWM crosses jurisdictional, watershed, and political boundaries; involves multiple agencies, stakeholders, individuals, and groups; and attempts to address the issues and differing perspectives of the entities involved through mutually beneficial solutions.

Future opportunities would consist of potential surplus-water transfers and regional partnerships in water desalination or advanced water treatment projects (such as indirect potable reuse or direct potable reuse). In addition, future opportunities in regional salinity management would be very advantageous to improving the water supply.

For the state to assist in these matters, funding though grants or loans would be helpful, as well as reasonable regulations or legislation to implement these type of programs.

Thank you for your time,

RANCHO CALIFORNIA WATER DISTRICT



Jeff Armstrong
General Manager

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