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Dear Landowner/Water User,

With the upcoming Proposition 218 Public Hearing, questions may arise in the process of implementation. This is a list of Frequently Asked Questions regarding the proposal by the District.

Why is the District raising rates, the District has always seemed to make things work in the past?

The District has historically subsidized its water rates through income generated by water sales. However, the public agencies that typically buy PID's water are working on more permanent solutions to their water supply shortfalls. With this increase in reliability, the need for purchasing water is only a backstop and last-ditch effort for other supplies. As a result, the demand for water purchasing is highly volatile. With a volatile water market, and increases in operations costs, the District's outside revenue generation mechanism is becoming more unsustainable.

On average, the District's operating costs (not including capital expenditures) are typically \$3.5 million per year. Please note, that the \$3.5 million does not include preventative maintenance or replacement of capital facilities within the District, it covers only the costs to keep the lights on and to deliver water to PID's customers. The District's \$60/acre assessment generates around \$750,000, leaving the District to generate an additional \$2.8 million to cover its annual operating costs.

To better understand what the \$2.8 million translates to, the following computations are provided based upon the District's average annual delivery of 30,400 AF:

- 2 AF/acre with the assessment
 - The District provides 9,500 AF that is chargeable to the District's \$30/AF water rate
 - This would generate about \$285,000, meaning the District would still need to generate \$2.5 million to balance its budget
- 1 AF/acre with the assessment
 - The District provides 19,500 AF that is chargeable to the District's \$30/AF water rate
 - This would generate about \$585,000, meaning the District would still need to generate \$2.2 million to balance its budget

When the District first started to subsidize water rates, its operating costs were much lower and the District could transfer some water to help balance its budget. However as operating expenses went up, as with all operations, the District started to transfer and wheel as much as it could just to be able to maintain the subsidy. As a result, to keep water rates at their current level, the District must bring in at least \$2.2 million extra every year to cover that portion of the District's operating costs not covered by the assessment and water sales. This approach is not

sustainable. The District has become dependent upon an unreliable water market; for example, if the state experiences two wet years in a row, there would likely be no market to purchase District water, and the District would likely run out of reserves and resources to be able to deliver water to its users.

Are the rates going up because of the costs of the new pump station?

The simple answer is no. The District had set aside revenues from transfers to fund the construction of the project. This money was set aside in 2015 and earmarked for the project and had no bearing on the operations of the District. The District has still been able to subsidize growers for 2016, 2017, 2018 and 2019 with the money set aside for the project and therefore the cost of the project will not have a negative impact on growers' rates.

Why such a large increase?

The Board of Directors have pushed to keep the rates low as long as feasible. This includes foregoing certain capital improvements and maintenance activities for the sake to keep rates low. Unfortunately, the result of this effort is that the situation the District is in now, where 63% of the operating revenue of the District is generated from highly volatile outside revenues.

What is the District planning to do with this increase in revenue?

It is important to remember that just because the District receives authorization to increase rates it will not impose the maximum rates unless they are needed. If the District is able to generate income from water sales it will continue to utilize revenues to subsidize rates whenever feasible. However, if water sales are reduced in any given year the District must have revenue to cover costs.

What happens if the Proposition 218 is voted down?

The District will continue to subsidize rates as long as it can. Over time this may result in foregoing preventative maintenance, reducing staff and benefits, and working on selling as much of the District's water supplies as possible. Over the long term such operations will adversely affect growers' water supply, services, and potentially water rights.

This rate increase could make farming certain crops infeasible, has the District considered this?

The District's Board of Directors farm almost all the various commodities grown in the District - some high value and some low. The decision to proceed with the hearing was carefully considered, especially for the low value commodities. The intention of the increase is not to favor a certain crop type, but to have a financially sustainable Irrigation District.

Why can't our rates be like the Exchange Contractors or one of the eastside irrigation districts?

Unfortunately, the Districts that are identified have their water delivered by gravity and do not have to pay for pumping costs to distribute their water. Furthermore, the eastside Districts have reservoirs of which they generate power that they sell wholesale to help offset their operating costs. PID doesn't have the luxury of gravity distribution nor power generation to help maintain lower water rates.