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NOTICE OF INCREASE IN WATER RATES

Since 1929, the Mid-Peninsula Water District (MPWD) has been reliably delivering high quality Hetch Hetchy drinking water to the communities of Belmont, San Carlos, and unincorporated areas of San Mateo County. We sincerely appreciate the opportunity to serve you.

The MPWD is a self-supporting agency, relying primarily on revenues from water charges and service fees to fund its operations. While we understand that rate increases may present financial challenges for some consumers, we hope the following information provides clarification why the MPWD needs the 9% water service rate adjustment that goes into effect July 1, 2014.

BACKGROUND ON APPROVED MPWD 5-YEAR RATE PLAN

Following a formal notice and Proposition 218 majority protest hearing process on May 27, 2010, the MPWD Board of Directors approved a series of up to 9% annual water rate adjustments over a 5-year period (July 1, 2010, through June 30, 2014).

UPDATE ON REGIONAL WATER SUPPLY SYSTEM IMPROVEMENT PROGRAM

The MPWD relies on imported treated water from the San Francisco Public Utility Commission (SFPUC) for 100% of its water supply. The SFPUC is undertaking a \$4.8 billion Water Supply Improvement Program (WSIP) for much needed capital replacement and rehabilitation of the almost 100-year-old Hetch Hetchy water supply system. This multi-year capital improvements program will meet water quality requirements, and ensure the reliability, capacity and seismic safety of the aging Hetch Hetchy water infrastructure system in an environmentally sustainable and cost-effective manner. May 2019 is the anticipated completion of the WSIP.

The MPWD and 25 other regional water agencies that purchase water from the SFPUC share in the non-San Francisco portion of the cost of funding the WSIP through increased wholesale water rates. For more detailed information, please review the recent SFPUC WSIP Regional Projects Quarterly Report (3rd Quarter of FY 2013/2014) for a summary of the program's regional projects at <http://sfwater.org/modules/showdocument.aspx?documentid=5368>.

WHY ARE WATER SERVICE RATES BEING INCREASED?

The SFPUC will impose a wholesale water rate increase of 19.6% effective July 1st. That means the charge for wholesale customers, like the MPWD, will be increased from \$2.45 CCF to \$2.93 CCF. Financing costs for the SFPUC WSIP are the cause for its wholesale rate increase in Fiscal Year (FY) 2014/2015.

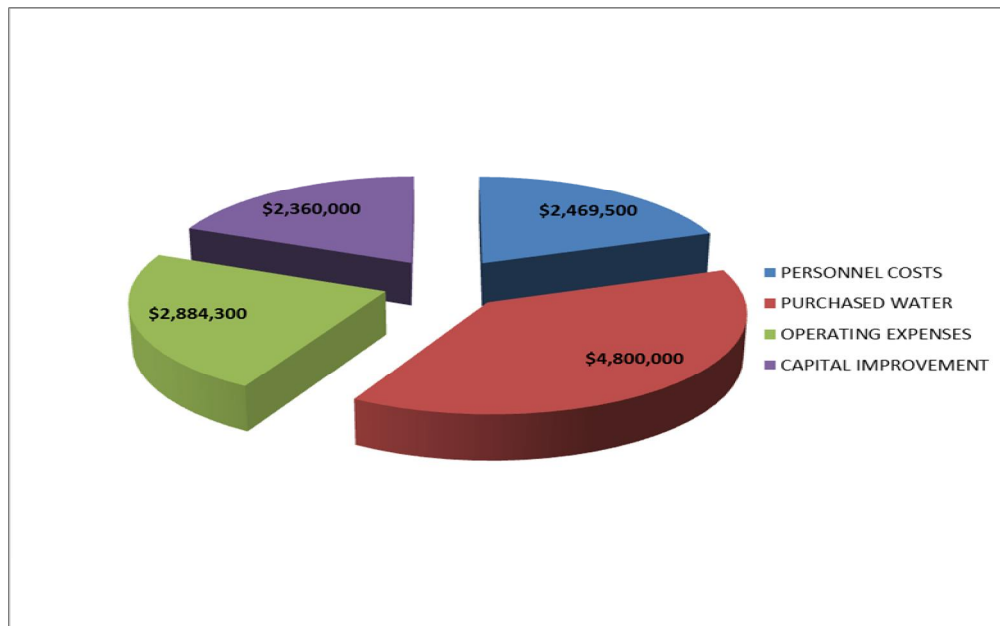
The cost to pass-through the 19.6% SFPUC wholesale rate increase to the MPWD ratepayers exceeds the 9% rate increase that will go into effect on July 1st. Nevertheless, the MPWD is committed to meet the challenge of covering all MPWD operating expenditures within the projected revenue base from the 9% water rate increase. With prudent budget management, that goal is achievable. The MPWD scrutinized its operating expenses on a line-by-line basis, making reductions or even eliminations wherever possible. Accounting for inflation and various increased costs of doing business, the MPWD was able to hold the overall increase in its operating budget to 5%. In addition, the MPWD anticipates that capital expenditures next fiscal year can be managed with cash from operations plus a projected \$384,000 transfer from capital reserves.

MPWD'S CONTINUED FOCUS ON COST-EFFICIENCY AND PRUDENT FINANCIAL MANAGEMENT

Through diligent budgeting, financial management, and cost controls, the MPWD is committed to providing cost-efficient high-quality services. Effective measures and practices that have been implemented to achieve these ends include:

- Reinvestment in MPWD capital infrastructure for system replacement, rehabilitation, and proactive maintenance (equal to capital service charge revenues collected from each ratepayer).
- Responsible management of capital, emergency, and working reserves according to the MPWD's reserve policy.
- Creative and more sustainable use of resources in the provision of services.
- Assumption of new and additional requirements to assure best practices and enhance transparency without increasing the MPWD workforce.

Here is a summary of the projected FY 2014/2015 operating and capital expenditures (\$12.5 million total):



PROPOSED FISCAL YEAR 2014/2015 MPWD CAPITAL IMPROVEMENTS

Capital improvements are important investments into the MPWD water distribution and storage infrastructure system. Our aging system and equipment require managed maintenance, rehabilitation, and replacement. Capital expenses have traditionally been “pay as you go”, meaning the MPWD pays cash for its capital expenses and has no accumulated debt. Proposed capital expenditures for next year include:

- **Completion of replacement Buckland water storage tanks construction - \$1.2 million**
- **Belburn Drive water main replacement (Academy Avenue to Notre Dame Avenue) - \$600,000**
- **Automated meter change-out program (next phase) - \$400,000**
- **SCADA systems replacement – Phase 1 - \$160,000**

The MPWD has typically spent about \$1 million each year on capital projects. It is higher next year (\$2.3 million) because the Buckland tanks replacement project is on schedule for completion in November 2014. Many of the MPWD's underground water distribution pipelines are over 50 years old and have reached or exceeded their expected useful lives (like Belburn Drive), which require us to focus on a responsible replacement program. The automated meter change-out program is continuing to replace 30+ years old water meters; so far, 1,800 meters have been replaced. Additionally, our critical water system communication and control program—SCADA (Supervisory Control and Data Acquisition)—has surpassed its useful life and is planned for phased replacement. Progress photos of the Buckland Tanks replacement project are shown below.

Buckland Tanks Replacement Project - Phase I
Mid-Peninsula Water District, Belmont, CA
April 14, 2014 through May 9, 2014



April 17, 2014 - Tank Shell Torch Cutting



April 17, 2014 - Tank Shell Panel Removal and Disposal



April 18, 2014 - South Tank Shell Demolition Completed



May 9, 2014 - South Tank Concrete Beam Pour

UPDATE ON MPWD CAPITAL, EMERGENCY, AND WORKING CAPITAL RESERVES

The MPWD Reserve Policy Statement, approved on December 13, 2007 (per Resolution 2007-13), established the following levels for our reserves, which provide security for future unexpected operational and capital infrastructure emergencies:

Capital Reserve	\$ 2,500,000
Emergency Reserve	\$ 2,000,000
Working Capital Reserve	<u>\$ 500,000</u>
TOTAL	\$ 5,000,000

MPWD reserves balance in the Local Agency Investment Fund was \$4.6 million on April 30, 2014.

MPWD WATER RATES

The table below shows the 5-year schedule of water rates that was presented to MPWD customers in 2010 and approved by the MPWD Board of Directors. **The rates that will be effective July 1, 2014 are highlighted in yellow.** Water bills include both a fixed monthly charge based on meter size, plus a water consumption charge based on each

customer's metered water use. The fixed monthly charge represents a flat rate charged to each customer for water delivery to your house or business service line, and is based upon the size of water meter.

Proposed Water Rates Effective for Bills sent as of July 1						
		2010	2011	2012	2013	2014
Monthly Service Charge						
<i>Fixed monthly charge based on meter size</i>						
Meter	Meter Ratio					
5/8"	1.00	\$13.30	\$14.23	\$15.51	\$16.91	\$18.43
1"	1.50	\$19.96	\$21.35	\$23.27	\$25.37	\$27.65
1 ½"	2.50	\$33.26	\$35.58	\$38.79	\$42.28	\$46.08
2"	4.00	\$53.22	\$56.93	\$62.06	\$67.64	\$73.73
3"	6.00	\$79.83	\$85.40	\$93.09	\$101.47	\$110.59
4"	10.00	\$133.04	\$142.33	\$155.15	\$169.11	\$184.31
6"	25.00	\$332.61	\$355.83	\$387.87	\$422.78	\$460.79
Water Consumption Charges						
<i>Variable charges based on metered water use*</i>						
<u>Residential Rate Tiers:</u>						
Block 1	0 – 2 units	\$2.40	\$3.25	\$3.53	\$3.85	\$4.20
Block 2	3 – 10 units	\$4.60	\$5.00	\$5.44	\$5.93	\$6.46
Block 3	11 – 25 units	\$5.45	\$6.00	\$6.53	\$7.11	\$7.75
Block 4	26 units & above	\$6.15	\$7.00	\$7.61	\$8.30	\$9.04
<u>Commercial Rate Tiers:</u>						
Block 1	0 – 5 units	\$4.52	\$4.52	\$4.89	\$5.33	\$5.81
Block 2	6 units & above	\$4.84	\$5.25	\$5.71	\$6.22	\$6.78
*One unit of water = one hundred cubic feet (CCF) or 748 gallons						

WHAT WILL THE 9% WATER RATE INCREASE LOOK LIKE?

As a result of the rate increase effective on July 1, 2014, a typical single family water bill will be approximately \$6.50 higher per month.

CURRENT DROUGHT CONDITIONS AND POTENTIAL MANDATORY WATER RATIONING
 The SFPUC is currently considering whether to impose mandatory water consumption cutbacks on the MPWD and all other agencies that purchase water from the SFPUC. If such a decision is made, the MPWD will need to analyze the financial effects of such mandatory rationing on operations.

CONTACT INFORMATION

Please contact us should you have any questions or comments at mpwd@midpeninsulawater.org or call 650-591-8941.

