



## Frequently Asked Questions Regarding Your Water Bill

### Why does your water statement bill continue to increase or fluctuate from time to time?

You may notice an increase in your water bill due to recent rate increases. Rate increases are necessary to cover the escalating cost of imported water, efforts to comply with environmental regulations, maintain and periodically replace aging infrastructure, and to provide safe, reliable and sustainable water and sewer service to its customers.

As Vallecitos has no local water supplies, 100% of our water is imported. Therefore, when our wholesalers raise the water rates, this significantly affects your water bill.

On June 24th, 2009, water and sewer rates for a two-year period were adopted. As a

result, the fixed ready-to-serve (RTS), sewer service, and pumping rate changes take effect each July 1. Variable commodity (water use) rate changes take effect each January 1. Effective July 2010, the RTS for a 5/8 meter will increase by \$2.80 per month, which will affect most single family residences. The sewer service charge for a single family residence will increase by \$1.82.

Your bill statement may also fluctuate from time to time because meter reading is not necessarily performed on a thirty-day cycle. Some bill statements could reflect a twenty-nine through thirty-four day cycle depending on the month, weekends, and holidays.

### Your water bill includes the following charges:

#### Ready-to-Serve Charge

The ready-to-serve charge (RTS) is assessed on all meters, whether active or not, to cover fixed costs. Whether water deliveries are up or down, some costs will always be incurred.

For example, the recent increase in the RTS for a standard single family meter covers our fixed administrative and operating costs and wholesaler charges. Vallecitos' wholesaler supplier, the San Diego County Water Authority, charges Vallecitos not only a charge based on consumption, but also fixed charges regardless of the amount of water we request to be delivered.

#### Sewer Charge

Sewer charges are usually assessed on a fixed basis, regardless of the flow from your residence to the sewer. The sewer charge is fixed for the same reason the (RTS) is fixed – if sewer flows are up or down we will always need certain operational resources, and must adhere to stringent regulatory requirements.

#### Water Charge

The cost of water use during a month includes wholesale cost plus local treatment, storage, distribution and facility replacement costs. Vallecitos' 3-tiered rate structure encourages conservation and puts the burden of costs associated with limited supply on those customers whose water usage is above average.

Our drought rate structure is effective whenever we are in a Level 2 drought alert or higher and adds 3 tiers with more accelerated rates associated with high use.

As with our regular rate structure, costs associated with limited water supply and lost revenues from conservation are recovered only from use within the highest tiers. Customers whose water use is less than average are not impacted by drought or conservation rates.

#### Pump Zone Charge

This charge is used to recover power costs if you live in a zone where water must be pumped to a higher elevation. About 10% of our customers live in pump zones.

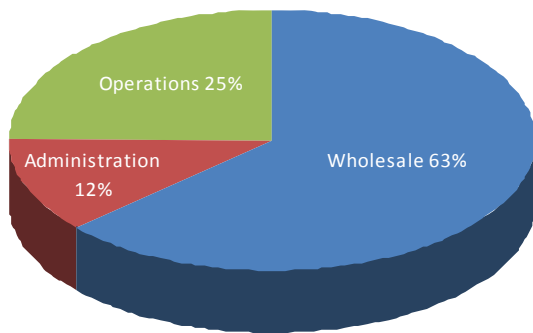
## Where does the money from your water bill payment go?

The payment on water bills covers wholesale water costs, administrative expenses, operating costs, debt service, and asset replacement.

- Administrative expenses include labor costs, outside services, utilities, insurance, materials, and any costs related to engineering, customer service, information technology, facilities, conservation, and other administrative type activities.
- Operating costs include labor costs, materials, utilities, outside services, repairs, and any costs related to transmission, distribution, tanks, reservoirs, meters, and any other activities related to maintaining and operating the water system.
- Debt service (principal and interest) is incurred from the issuance of Vallecitos' bonds to finance the construction of major projects, such as tanks and infrastructure development.

- Asset replacement is achieved by using available reserve funds. Some parts of the system are over 50 years old. Future rate increases are planned to provide revenue for replacements and avert further declines in reserves.

### Costs paid for by an Average Monthly Single Family Water Bill

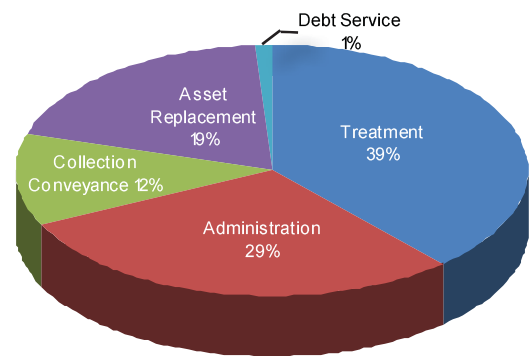


Note: Remaining operating costs, debt service, asset replacement, and conservation are covered from water sales in higher tiers paid by customers who use water above average levels.

## Where does the money from your sewer bill payment go?

Sewer service charges cover payments to the Encina Wastewater Authority for treatment and disposal, collection, conveyance, treatment at our reclamation plant, all other operating costs, administrative expenses, debt service related to sewer projects, and sewer asset replacement.

### Costs paid for by a Monthly Single Family Sewer Bill



## How can I use so much water while on vacation?

Most of the residential water usage comes from outdoor irrigation. Fifty to eighty percent of water is used for watering landscapes. Therefore, water usage may not really fluctuate while you are on vacation and water bills may still reflect similar monthly usage.

Checking for leaks and irrigation maintenance issues might be something to consider before leaving for a vacation or business trip. In addition, making sure the irrigation controller is programmed with a current schedule that meets the needs of the soil and plant material are essential for water efficiency.

### For More Information

Our customer service department is available at 760-744-0460 or visit our website at [www.vwd.org](http://www.vwd.org). For information on our current Capital Improvement Projects go to the Engineering, Capital Improvement section of our website.

## Why do rates continue to rise when costs are held steady?

Ensuring the reliable service customers have come to expect requires more than the daily actions of Vallecitos employees. It also requires a sound plan that meets the District's sustainability, operational, and financial goals well into the future without drastic customer rate spikes.

In its 55-year existence, it has been the District's priority to cut costs wherever possible and pave an operational financial path to the future. Part of that plan is, despite operational costs remaining steady, increasing rates incrementally. Doing so provides customers with a buffer from hikes associated with necessary infrastructure improvements for the future and the escalating cost of providing 100 percent imported water from wholesalers.

For example, some of the District's budgeted expenses for the fiscal year ending June 30, 2011, decreased. However, the cost of imported water is projected to do the opposite, with a 12 percent hike next year and double-digit increases into the foreseeable future. Because the District currently has no other source for water, an ordinance makes it necessary to pass through wholesaler rate increases. These increases are minor if assessed immediately but major if assessed in the future.

Also, the District has made significant investments in asset management systems to ensure reliability and address issues with the aging infrastructure. Unfortunately, the costs associated with replacement has accelerated, making it necessary to increase rates to improve essential services that will benefit all customers in the future.

Just as the incremental increases assist in financing future replacement projects, they are also instrumental in meeting debt obligations for past projects. By contract, the District is required to maintain net revenues at 115 percent of debt service costs (principle and interest due to our bondholders). The District is allowed to meet this goal by including capital facility fees (fees on development and growth) and property tax revenues. The District historically was able to achieve this goal without including capital facility fees. Vallecitos could still use capital facility fees, however, this revenue source is becoming increasingly unreliable due to the lack of development and growth in our region. In recent years, property tax revenues have also become more uncertain due to the State of California's budget crisis and repeated intentions of taking away property tax revenues from special district utilities, such as Vallecitos. To counteract these economic trends, our goal is to meet the net revenue requirement without including capital facility fees and property tax revenues in the future. As a result, we cannot meet this new goal without increasing rates to meet that 115 percent requirement.

Moving forward, the District will need to issue more bonds to build necessary projects. Another benefit of incremental rate increases is that it helps increase the District's reserve to exceed minimum requirement amounts, which the investment community looks favorably upon. As a result of the District's sound financial decisions, Vallecitos has an AA+ bond rating, which is one of the highest ratings available. With such a strong credit rating, Vallecitos will be able to secure low interest rates, offering customers sustainability and quality service without drastic rate hikes for decades into the future.