

IMPORTANT INFORMATION REGARDING YOUR WATER RATES—PLEASE READ!

At the June 2009 Board meeting the Board of Directors approved a mail ballot election to seek voter approval to amend Ordinance 95-1. In July the County Registrar of Voters will be mailing a ballot to voters in the District asking the following:

To minimize water rate increases necessary to fund utility improvements, including for the protection of drinking water reservoirs to comply with federal law, shall the Rainbow Municipal Water District adopt an ordinance amending Ordinance 95-1 to authorize participation in federal and state loan assistance programs that require incurring public debt to take advantage of favorable financing terms, and not authorizing any new taxes?	YES
	NO

Approval of these amendments to Ordinance 95-1 will allow RMWD to take advantage of loan or grant programs sponsored by the State of California, the federal government or similar entities.

The Board of Directors believes approval of this measure (a "yes" vote) will help minimize future water rate increases.

In order to help you understand the issues, below is a list of questions customers have asked regarding the proposed change. Please take a few minutes to review the information, and please look for your ballot in the mail in late July.

Frequently Asked Questions

How much debt does RMWD currently have?

We currently have no long term debt. Our last long-term debt was paid off last year.

What is Ordinance 95-01?

Ordinance 95-01 was passed by the Board of Directors in 1995. It prohibits the Rainbow Municipal Water District (RMWD) from incurring additional debt without a public vote whenever the District exceeds \$1,000,000 in cumulative debt.

Why is that a problem?

The state and federal governments have financial assistance programs to help fund municipalities' large construction projects. These programs offer lower interest rates and much better terms than those available on the open market. In some cases the loans are no-interest or grants that may not have to be repaid at all.

The timing to apply for and receiving these loans does not coincide with the primary or general election cycles, and trying to schedule a special election each time we are invited to apply for a loan is impractical and cost prohibitive. For example, last year we were invited to apply for a low-interest loan of more than \$15 million to complete federally-mandated modifications to Beck Reservoir, but chose to decline because an election could not be scheduled in time. Without a loan the funds to meet the federal requirements will have to come solely from increased water rates.

What am I voting on?

Ordinance 09-09 amends Ordinance 95-1 to pre-approve applications for state and federal financial assistance programs such as the State Revolving Fund, or other state or federally sponsored or guaranteed entities. All other provisions of 95-1 would remain in effect. RMWD would still need voter approval for any conventional loan or for any bond measure in the future.

What is a state or federally sponsored or guaranteed entity?

Financial service corporations with government charters generally provide lower interest rates for loans to specific types of borrowers. The Federal Housing Administration or Farm Credit System for homeowners are some examples. RMWD is interested in the Safe Drinking Water State Revolving Fund for water systems, or the Clean Water State Revolving Fund for sewer systems. Other examples are the California Infrastructure and Economic Development Bank and the American Recovery and Reinvestment Act (referred to as the Federal Economic Stimulus Package).

**RAINBOW
MUNICIPAL
WATER
DISTRICT**

3707 Old Highway 395
Fallbrook, CA 92029
760-728-1178
www.rainbowmwd.com

**2009
BOARD OF DIRECTORS**

Gerald Walson
Division 1

Jack Griffiths
Division 2
(760) 940-8935

George McManigle
Division 3
(760) 723-2119

Bob Lucy
Division 4
(760) 728-8325

Rua Petty
Division 5
(760) 731-6584

STAFF

General Manager
Dave Seymour

Operations Manager
Chuck Sneed

Finance Manager
Gene Buckley

Human Resources
René Bush

District Engineer
Brian Lee

What is the money for?

We are facing about \$45 million in state and federally mandated capital improvement projects—mostly dealing with our large open storage reservoirs. These projects are not discretionary; we must take action. If we don't comply with the regulations our only other option is to remove the reservoirs from service which would impede our ability to deliver water. The deadline for compliance was April 2009 and we are currently operating under a Citation of Noncompliance from the California Department of Public Health. **We must complete these projects or we face stiff fines and other sanctions from regulatory agencies.**

What are the potential savings?

A State Revolving Fund (SRF) loan for water system improvements has historically been 3% below market rate, so if we had to go out and borrow \$26 million on the open market it would cost us about \$9.6 million more than the cost of a 20-year SRF government loan; however, there are even more potential savings. The interest rates on SRF loans can be negotiated to as low as zero percent and some of the SRF funding may be in the form of grants that do not need to be repaid at all. For example, we have to cover the North and Northside Reservoirs. We recently received notice we are being considered for a \$6.8 million SRF loan for that project. The proposed funding is \$3.4 million in low interest loans and \$3.4 million in grant funding that doesn't have to be repaid at all.

Keep in mind you already paid for these loans through your tax dollars!

What if the voters don't approve Ordinance 09-09?

Our options are limited. Remember, the projects and schedules that are driving our need for funds are **mandated** by the state and federal governments—they are not optional. The financial requirements for construction will utilize our reserves in less than three years. We don't have long to come up with \$26 million.

Realistically there isn't adequate time to promote and pass a bond measure, which would require 2/3rds voter approval and would add at least \$9.6 million to our costs. The only options are to either take our largest reservoir—Beck Reservoir—out of service or raise water rates substantially.

Beck Reservoir holds about one-half of all of our storage. Emergencies such as earthquakes or fires could leave us cut off from normal water supplies for weeks or more. The loss of Beck Reservoir would have a tremendous negative impact on our ability to deliver water to our customers. Beck Reservoir was a main source of water supply during the Rice Fire in 2007; without it we would not have been able to supply up to 19,000 gallons of water per minute in support of the firefighting efforts. ***Without Beck Reservoir we cannot provide service to our customers in a sustained outage, and would have no water for agricultural users during any kind of shutdown.***

A rate hike necessary to raise \$26 million would be about \$0.80 per unit for three years (the time needed to meet cash flow requirements). For a customer who averages 26 units per month (average two-person household) that would mean an increase of about \$250 per year; larger users would pay much more. Metropolitan Water District of Southern California is also planning water rate increases of about 50% over the next three years.

In comparison we could repay a SRF government loan/grant with a rate increase of around \$0.05 per unit for the foreseeable future.

The Board of Directors believes approval of this measure (a "yes" vote) will help minimize future water rate increases.

**** PUBLIC WORKSHOP ****

RMWD will be hosting a public workshop to discuss the Level 2 drought conditions on Saturday, June 27, 2009 from 9:00 a.m. to 1:00 p.m. at the Pala Mesa Resort located at 2001 Old Highway 395, Fallbrook, CA 92028.