

**MINUTES OF THE SPECIAL MEETING  
OF THE BOARD OF DIRECTORS OF THE  
MOULTON NIGUEL WATER DISTRICT**

**FEBRUARY 23, 2011**

**PUBLIC HEARING – WATER-BUDGET-BASED RATE STRUCTURE AND RESULTING  
WATER SERVICE RATE INCREASES**

A Special Meeting of the Board of Directors of the Moulton Niguel Water District was held at the District office, 27500 La Paz Road, Laguna Niguel, California, at 5:30 p.m. on Wednesday, February 23, 2011. There were present and participating:

**DIRECTORS**

LARRY MCKENNEY	President
SCOTT COLTON	Director
RICHARD S. FIORE	Director
DON FROELICH	Vice President
GARY R. KURTZ	Director
LARRY R. LIZOTTE	Director
BRIAN PROBOLSKY	Vice President

Also present and participating were:

**STAFF MEMBERS, LEGAL COUNSEL**

ROBERT C. GUMERMAN	General Manager
CHARLES J. ROY	Director of Customer Service
MATT COLLINGS	Director of Engineering & Operations
PAT GIANNONE	Bowie, Arneson, Wiles & Giannone
LESLIE GRAY	MNWD
KELLY WINSOR	MNWD
ROBYN EPPSTEIN	MNWD
GREGG HOOPER	MNWD

**PUBLIC MEMBERS**

CHUCK FORBES	Aliso Viejo Community Association
TOM ASH	HPDS
DICK RUSSELL	Self
PATRICE RUSSELL	Self
GEORGE L. WEBSTER	Self
JOE HOLTZMAN	Mission Viejo Environmental Association
BOBBI MATHIEU	Del Prado Board of Directors
LARRY RANK	Del Prado HOA Board
MARTY FARRIS	Del Prado HOA Board
JOHN IMMEL	Self

KAREN M. HULSY	Self
WILLIAM HULSY	Self
GARY WISE	Self
IRWIN BERG	Self
CONNIE TRAVIS	Del Prado Board
NANCY MICHEL	Self
NANCY HULL	Self
NEAL HULL	Self
ARNOLD KOCI	Self
MICHAEL KOGUS	Self
RONALD BEAUFORT	Self
LARRY W. SWANSON	Self
ED PALMER	Self
GEOFF WHITE	Self
MATT KECK	Self
JOHN CHEVALIER	Self
SCOTT LINSLEY	Self
CHARLES MANAZIR	Self
CHRIS SHEA	Self
GARY M. RUSSELL	Self
MARGARET WIDMER	Self
JOHN PALAZZOLO	Self
JIM SWANNER	Stoney Pointe HOA
RON LANGER	CAC Member
JOHN HICKS	Self
SHARON RICE	Self
PHILLIP CRANE	Self
DAVID TOVEY	Self
HOWARD REVIER	Self
RICHARD SCHLESINGER	City of Mission Viejo
MEGEYA SHARP	Self
HADI PRESCOTT	Self
DAN MACK	Self
RUSSELL WILLIAM	Self
JUDITH WILLIAM	Self
MICHELLE SCHWARTZ	Self
ZACK SCHWARTZ	Self
PAT KEY	Self
JOHN KALIANOV	Self
JOSH JOHNSON	Self
RUDY PORRAS	Self
MONA S.	Self
SUE BLOCK	Self
DALE TYLER	Self
KERWIN ZIEMER	Self
THERESA WHITE	Self

SHARON BIRKELAND	Self
SUSANN K. BURNETT	Self
LINDA BIDWELL	Self
PHILIP FLINTZER	Self
JANE MEDLING	Self
BEHZAD REFAH	Self
DAVID OLIVIERI	Self
BEN CARAGAN	Self
TOM MALONEY	Self
GLORIA MALONEY	Self
STEVE WALENTA	Self

Absent was: There were no absences. President Larry McKenney presided and Leslie Gray recorded the minutes of the meeting

MCKENNEY: We'll begin with the agenda momentarily but considering this is a larger-than-usual crowd, I want to ask our Board to introduce themselves before we start. So we'll start with Gary Kurtz.

MR. KURTZ: Gary Kurtz, District No. 7.

MR. LIZOTTE: Larry Lizotte, District No. 4.

MR. FIORE: Richard Fiore, Division No. 1, which is a portion of Mission Viejo and Laguna Hills.

MR. MCKENNEY: And I'm Larry McKenney, I'm Division 6, Aliso Viejo.

MR. FROELICH: Don Froelich, most of Laguna Hills and a little bit of Laguna Niguel and a little bit of Aliso Viejo down where the Target is.

MR. COLTON: My name is Scott Colton. I'm in Division 2, which is Laguna Niguel and Mission Viejo.

MCKENNEY: So the meeting tonight is a Special Meeting for the purpose of talking about Water-Budget Based Rates. So anybody that thought they were on a plane to St. Louis, this is the wrong plane. And the first thing on our Agenda is Public Comments; but I want to ask a question about this because the forms that you all filled out saying that you want to speak

allows you to say that you wanted to speak on a Public Hearing item, which is the one substantive thing that we have on the Agenda tonight, the Water-Budget Based Rates; and then other Agenda items, and the only other Agenda item is the resolution itself, which is to consider the adoption of the Budget-Based Rates. So I can't tell clearly from the people that checked both of those, some people did and some people didn't, but for people that checked both, let me just ask is there anybody that wants to speak during this public comment period specifically about the resolution, the form of the resolution, not particularly about the rates? I expect most people that are here want to talk about the rate structure. So –

VOICE: Where do you get the forms?

VOICE: Right here.

MCKENNEY: Okay. Continue to submit the forms, but we're going to go ahead and get started. It looks like we have at least an hour and a half or so potentially of public testimony once we get the hearing started. So let me just describe how this is going to work tonight. In a minute we're going to start agenda item number three, which is Water-Budget Based Rates. We're going to have a very brief staff presentation just to set the stage for the discussion. Obviously, we published our written notice and expect you all read that and that's why you're here. We'll have a brief staff presentation and we'll move very quickly into the Public Hearing, which is when you'll be able to offer your testimony, and that's the main reason we're here this evening is to hear from you, and then after that we'll receive all the written comments that we've received. We'll close the Hearing, and then we'll move on to the Board's discussion. So I want to also note for the Board Members the way this is going to work tonight. When people testify, if there is something that you really need to have them clarify, we'll allow Board Members to ask clarifying questions; but we're not going to debate or

seek answers to everything that's raised. We're going to receive testimony. And after we've had the Hearing and we've gotten all the testimony, we'll see what time it is and all that. Then we'll have our consideration of the resolution. Do you understand? I will also note for you we didn't intentionally pack everybody in here to make everybody uncomfortable. This is our normal Board Meeting room. We have all of our Board Meetings, we do all of the business of the District that's all open to the public in this room, and we've never been this packed.

When we scheduled this meeting three months ago, we had to take a guess and based on our past experience we thought we'd still be able to do it here, but we appreciate your bearing with us and this is what happens when we don't spend your dollars building a big palace of a room.

So we'll try to keep you as comfortable as we can. So with that we're going to move to agenda item three, and I'll ask staff to make the presentation.

GUMERMAN: Thank you very much, Mr. Chairman, Members of the Board, and audience.

I'll keep my remarks pretty brief as Director McKenny said. Our primary purpose tonight is to listen and receive input from the public. I just wanted to make a few introductory comments.

We as a District are limited by the amount of water that we can buy from our regional supplier, which is the Municipal Water District of Orange County. They import water from Metropolitan Water District and Metropolitan in turn is restricted to what they can buy. In response to those limitations which went into effect July 1st of 2009, the District implemented what we call a Water Conservation Program. One of the primary things that we found we knew going into it but it was the only way to do it other than asking people to voluntarily conserve and be efficient in their water usage was the three-day-a-week watering schedule.

Depending on where you lived, you could water on Monday, Wednesday and one day on the weekend or Tuesday and Thursday and one day on the weekend. To achieve compliance with

that we had water monitors to watch for sprinklers going off during the nighttime hours on the wrong day. We sent out over 17,000 violation letters. The message was loud and clear.

People did not like this. People wanted to have control over their water usage and one of the ways to do that and it took us a year and a half to develop this concept leading up to tonight is what's called the Water-Budget Based Rate Structure. The Water-Budget Based Rate Structure does not prohibit days of the week watering. You still will restrict watering between 10:00 in the morning and 5:00 in the afternoon when the evaporation is the highest but it won't restrict what day of the week you can water. It won't restrict how much water you can use.

What it does is it rewards people that are efficient -- and I like to use the term efficient rather than conserving -- it rewards people that utilize water efficiently. People that want to use more water pay a much higher charge for that because they're not using water efficiently based on the criteria that we have set, and the criteria are 65 gallons per person per day and based on the landscaped area. So if you have a large yard, you're not penalized. You're not automatically pushed into the higher tier rate structure. So we feel it's a technically rigorous approach that can be supported. It's generous. Of all of the water agencies, and we can list probably at least seven in the County of Orange that use this concept or many tens or 20 or more in the State of California, more and more are going to this structure all the time. It's generous based on what we've used. We feel it's realistic in terms of what people need. It's not a brand-new idea. One of our neighboring districts, Irvine Ranch Water District, used it for the last 19 years, very successful. Overwhelming support by over 90 percent of the customers in Irvine Ranch Water District. Some of the questions that have come up in the Board Meetings where we had the opportunity last Tuesday, Wednesday, Thursday to hear from the Board questions that may be on your mind: Historical usage, if I conserved water in the past, am I going to be asked to

conserve even more in the future? That's not a true statement. The Water-Budget Based Rate Structure is not based upon historical usage. It's only based upon efficient usage. You may find in some cases you've been very efficient; you're going to be allocated more water than you've actually been using. Swimming pools, a lot of questions on swimming pools. Why don't they count? The answer is they do count. They count the same as irrigated land acreage. Other people say, "Well, in the summertime I use a lot more water for irrigation of my yard. Why isn't that taken into account?" It is taken into account. Your allocation varies monthly depending upon the time of the year. In the wintertime you'll get very little for outside irrigation. It will be all for indoor usage. In the summertime the major component of what you're allocated will go up significantly based on the size of your irrigated acreage of your yard. We found that the majority of the people when we've had time, the people that have taken the effort to sit down and talk to us, they had these questions. They were very concerned that their rates were going to go up significantly when they saw what the upper tiers would cost. They found out that they would fit within their allocation and they turned out to be very happy once they sat down to understand it, and we're here to listen to your concerns, to react to your concerns. We have a Variance Program we're developing. If you come to the District and you say, "Gosh I've got four children and my spouse and myself. That's six people. You're only allocating me four for the single-family residence", we can accommodate and give a Variance for that. If you come and ask for 12 people for a single-family residence, we're going to be asking for some form of verification of that. We will sit down. We are not implementing until July 1st. We're doing an in-house look at all of the customers that fall in the higher tiers. We'll go back and check your acreage. All those customers will get a letter from the District asking if we can meet with you to sit down and talk with you to find out is there something that we

can do to help you become more efficient so you don't fall in these higher tiers. We suspect that the majority of people will take advantage of that. We get a lot of calls from people, "Well, I got to tell you about my neighbor". We all know there's people in the District that really don't care. They don't care what it costs and they don't care how much they use. I feel that probably the majority of the people here don't fall in that category. But those are some of the factors of the rate structure, and I'd like to ask the Chairman of the Board to call people who want to speak at this point.

Director Probolsky arrived at 5:45 p.m.

MCKENNEY: Is that the extent of the staff presentation?

GUMERMAN: Yes, it is.

MCKENNEY: I want to emphasize for all of you as well that this Board has heard numerous staff presentations over the last year about the technical basis for this and how everyone else is doing it. So it's not based just on what we're hearing tonight. The point mainly of tonight is to hear your comments and concerns and we're going to get started with that. So I'm going to call the Public Hearing to order.

VOICE: Excuse me. We can't hear. Please speak up.

MCKENNEY: We're going to begin the Public Hearing and I'm going to start calling people to come forward to speak. I'm going to call the person that's going to speak and I'm going to name the person that's next so that you can be ready. When you're called, we'll ask people to stand. You're welcome to come forward to the podium and make your remarks from there.

Let me ask for reporting purposes do they need to come to the podium or can they just stand wherever they are if they're more comfortable with that? We'll pick it up? So you don't have to come to the podium. You're welcome to do that if you want to. The important thing is that we have a lot of people that want to speak and to accommodate all that there is a time limit.

You're going to be allowed only five minutes to speak; and if you don't have five minutes worth of things to say, there's no obligation to speak for five minutes. And if you have comments to make and you've already heard someone else before you make those comments, you're welcome to say, "Me too, I reiterate those comments". We don't really want to hear everybody explain the same thing, but we'd like to know that you share those concerns. So just refer to each other and that way we'll be able to get through everybody's comments as quickly as we can. You don't have any obligation to stay after you've made your comments but you're welcome to. Any questions about the process? If not, the first speaker is Joe Holtzman, and Patrice Russell will be on deck.

MR. HOLTZMAN: Hi, I'm Joe Holtzman. I'm here as a member of the Mission Viejo Environmental Association's Water Conservation and Landscape Committee and we've got some questions we'd like to have answered or be directed to the person that can answer these questions. But the first thing I'd like to say, we take great exception to the proposed basic service charges. For example, our district, our association, has pretty close to 3,000 homes in Mission Viejo. We are the largest homeowners association in Mission Viejo, and we are serviced by Moulton Niguel, as well as Santa Margarita Water District. Now, the Basic Service Charge at Santa Margarita Water District is \$18.93. Yours is \$30.75, which is almost double what the Basic Charge for Santa Margarita is. Now you're jacking that rate up to \$55.00 over your present rate, which is a \$24.00 increase or a 79 percent increase. So we object to the Basic Service Charge. So if we use zero water for Moulton Niguel, which we did in December, zero water from you people, we're going to have a \$55.00 charge per meter. So we object to that. Now, the other questions that I have and this is a documentation of all the things that we have done in our association to reduce water and we know what the rate of usage is by meter, by

dollar, by square foot, and an index rate. So we're well aware of that. But I'd like to know where I can find if it's available on your website how many square feet or acres we have of our association on your meters. Now, I know that we got 409,000 square feet because we've assured every inch of it. Where can I go to validate what you people say we have?

MCKENNEY: Is that the conclusion?

MR. HOLTZMAN: No. That's not the conclusion. I want to know where I can find that from.

MCKENNEY: Go ahead.

MR. HOLTZMAN: The other thing is where are you getting the ET rate from? It's certainly a significant difference if you're getting the ET rate from Laguna Niguel versus Mission Viejo because you got a different evaporative transportation rate both those communities. So I'd like to know where you're getting that rate from that you're applying to us. That will make a difference from us, and it appears to me that you're using the Eastern Municipal Water District formula more than you are the Irvine Ranch Water District formulas. So I'd like to understand those. I'd like to know who I can talk to and I'd like to know what uniformity rate you're putting down. Is it 60 percent? What are you using? Are you using all turf or are you using a mixture of turf and/or various vegetation, and how are you acquiring that information? So I'd like to have those answers or be directed to a person who can give me those answers off line.

MCKENNEY: The answers to all those questions can be obtained from Chuck Roy off line and I'll just note --

MR. HOLTZMAN: Which one is Chuck Roy?

MCKENNEY: Right here. And this is exactly the type of thing we anticipate doing with many of our customers, particularly our larger customers, who have these type of questions.

MR. HOLTZMAN: We're one of your larger customers, so --

MCKENNEY: Thank you for your comments.

ROY: Can we answer at least so that it won't be repeated over and over? I think when you're talking micro climate zones, we're using 110 different micro climate zones. We know exactly what it will be, the ET, in Mission Viejo versus Laguna Niguel. I just want to make sure everyone understood that.

MCKENNEY: Let me remind everybody there are still some people outside. If there's any way at all to squeeze more in, I'll just tell you if we can't get the people in that need to get in tonight, our only legal alternative is to continue this Hearing at a different night in a larger room and we'd have to start over with the Hearing. So I don't want to do that. So if we can squeeze in, accommodate your neighbor, do the best you can, and we'll all try to speak up. So you're Patrice Russell and let me just note that William Hulsy will be on deck.

MS. RUSSELL: First of all, I just want to say that I fully expect that all of you have already made up your decision and this is merely a formality.

VOICE: We can't hear her.

MS. RUSSELL: I'll try to speak more loudly. I said that I fully expect that this Board has already made up their mind and this is merely a formality, but I hope that they listen to what the customers have to say, although I have to say personally I feel more like a subject than a customer, and I feel like if I were a customer, as a large customer I would be given better prices instead of the highest prices. I'm just speaking as an individual. We have four acres of property in Laguna Hills. We received a phone call last year that said we were being allotted 11,314 square feet. However, when I plugged our account number into your online calculator, it says we are being allotted 3,683 square feet. I based all my calculations based on the higher number assuming that what's in your computers is incorrect. All of your documentation has

said that this proposed change in structure is intended to be revenue neutral; that it's intended to simply be more equitable rather than raise additional revenue. However, at the same time you said every customer should expect a higher bill based on the new rate structure. So certainly in my case I'm not finding it to be revenue neutral. You also say that this change is not related to a water shortage; yet you are trying to help me learn how to conserve water. So I think that the message that you're sending out is a little bit confused as to what the purpose of this is. And then using the ET factor, I don't know how many people in this room know what an ET factor is. I looked it up so I could find a chart so I could plug it into my spread sheets, but it seems as though what the water district is telling us is that you'll decide how much water we should be using after the fact because there's no way we can know the ET factor on a daily basis, nor can we program our sprinkler system to take the ET factor into consideration. So I did a complete spread sheet based on all the information that was on the website, putting in an ET factor, using all of our water usage for the entire year of 2010 for each month. We currently have two meters at our house. We don't want two meters but there were two meters when we moved in. One is a three-quarter-inch meter and one is a two-inch meter. So we've been paying extra, obviously, for that two-inch meter since we moved into the house. We actually would like to have it removed because we're paying a lot of money, even though we don't use a lot of water. Okay. Plugging all the numbers into my spread sheet, I calculated based on the proposed rate structure, the current rate structure at the current prices, the current rate structure at the prices that are due to go into effect later this year, and also the prices that were in effect one year ago because we already had a rate increase last year. Based on our usage with two meters, we're going to see a 26-percent increase over and above the rate increase that goes into effect on June 1st if we do nothing. It's 44 percent over the current rate and 67 percent over the rates that were

in effect one year ago, and that's based on the 11,314 square feet. If I consider that you may only allow me 3,683 square feet, we'll see an increase of 235 percent. The last thing I guess I want to say is that if you aren't making this change to raise price or due to the water shortage, then why are you spending all of this money on what you say is a revenue neutral price structure change? And I would urge you to use that same amount of money on perhaps effecting change in the restrictions on the water that gets delivered to Southern California or find a new source of water.

MCKENNEY: William Hulsy, and Richard Russell is on deck.

MR. HULSY: Mr. Chairman, Members of the Board, and ladies and gentlemen, thank you for hearing me on this matter. First, special greetings to my law school classmate, Mr. Fiore. Knowingly or unknowingly this Board has permitted its staff to wage a false propaganda campaign in favor of this proposal which puts in question the fairness and open-mindedness of this Board. It appears that this plan has already been decided and we are just going through the motions for legal compliance. Hopefully this Board is still open to consider other alternatives. This propaganda campaign is based on several false contentions, each of which is either absolutely false in fact or false in presentation. First we have been told that "We are required to conserve 20 percent". This is not true. Actually we have been merely given a "goal" by the state to conserve urban water usage by 20 percent by the year 2020, which is ten years hence. So there is no "requirement" to implement a Draconian system at this time to achieve that goal. The title of Water Code Section 10608.16 is "Goal for Reduction in Urban Water Per Capita Water Use Incremental Progress". The second false contention is that "The state recommends Water-Budget Based Rates as a preferred method of water agencies" and that's repeated in this little flier that's been distributed today. Actually the State of California and Water Code

Section 370 states that the state takes no position on which kind of water system is put in place. Section D of that states, "Nothing in this chapter is intended to limit or dictate the design of rate structures that public entities may use to promote conservation by water users". Section E states, "Nothing in this chapter directs or otherwise compels a public entity to use allocation-based conservation water pricing". When I challenge Charles Roy, Director of Customer Service and the editor of the *WaterLines*, as to the authority for the supposed state recommendation, he said it was based on the California Urban Water Conservation Council, which he claimed was a state agency. In fact, that council is not a state agency but only a partnership of water suppliers, environmental groups, and others interested in conserving water. The third lie is "Orange County will receive far less water than it did in 2011". In fact, according to a member of the Metropolitan Water District Board of Directors which supplies water to this water district, the Metropolitan Water District hopes and expects to deliver to this District more water than delivered last year. According, again, to Director of Customer Service Roy, "the needs" referred to in that claim was the water level used by this District in 2009. He told me that, "Your customers don't like the present restrictive use for outdoor watering". He admitted that this District used 14 percent less in 2010 than 2009. So this claim is also false. The fourth lie is that "The rate changes will not generate more money for the District". In fact, in a meeting with General Manager Gumerman he admitted to me that the District expects, though it does not intend, to receive more revenue by virtue of this rate change. Director Roy told me that the extra money which the District expects to receive in this plan will go into rebates to users who purchase water-saving equipment. The Register has claimed that water bills will be going up. In fact, there is nothing in this plan which even intends that it be revenue neutral. The most shocking aspect of this fraudulent representation is

that there is actually nothing in the plan on how to use the revenues in excess of expenses which are expected to be generated. What we will have is a huge slush fund for various good causes which will no doubt be raises for staff and Board Members. This plan is patterned on the plan pioneered by the Irvine Ranch Water District. They have now built up --

MCKENNEY: Thirty seconds.

VOICE: You can have some of my time.

MR. HULSY: I timed this at seven minutes.

MCKENNEY: We'd like to hear you. We have five minutes. A lot of people want to speak. You have 30 seconds.

MR. HULSY: You're cutting me off at 30 seconds?

VOICE: I think you got to let him speak.

MR. HULSY: This plan is patterned on a plan pioneered by the Irvine Ranch Water District. They have built up a huge 1.2 billion dollar reserve. That is what the authors of this plan mean by their goal of "financial stability". One of the claims in support of this plan -- and this one is actually true in fact but false in presentation -- is that the American Water Works Association endorses this kind of plan. On the Internet the AWWA is touting its trade association gathering in Orlando, Florida in mid-March of this year. The subject of its presentations will be "Weathering the Revenue Lost Storm Occasioned by Water Conservation". The title of one of its presentations is "Have Your Cake and Eat it Too, How to Conserve Water and Increase Revenues in Tough Economic Times". It is not surprising that this trade organization endorses this proposal. The problem is that this true endorsement by the AWWA is false in presentation because the impression is given that it cares about the water consumer. In fact --

MCKENNEY: Mr. Hulsy, do you have a last comment you want to make?

MR. HULSY: I'll read my last paragraph and I'll just submit copies of this to you. You have monopoly power over the most vital of human resources, water. Please use that power wisely. I urge you to develop an alternate plan with a goal of ten percent savings annual per capita use by 2015 utilizing the principles of supply and demand. Please do not reduce our relationship with you to one that can only be described as adversarial. We are all in this together. We are not the enemy. We are the voters and you are our representatives. Thank you for your consideration.

MCKENNEY: Next is Richard Russell, and Lawrence Rank is on deck.

MR. RUSSELL: Thank you. My wife has managed to take all of my stuff so I'll just start from that point. Just a couple little detailed things. I don't know what the accuracy of so-called satellite maps are, but when I called and asked about how they were going to determine this arbitrary amount of acreage that you're being allocated and then somebody, say a bureaucrat, is going to make that decision, not me but someone else. In the first place, it's very inaccurate and to try to do that off a satellite map is ridiculously impossible, and to determine what's adequate water and what isn't is crazy. That's just one thing. The other thing I want to say, the previous gentleman said it pretty well, is that you are -- we're your customers. I want to buy from you one cubic foot of water. I don't need this -- what is this evaporative --

VOICE: Evaporative transportation.

MR. RUSSELL: I don't need that, and she spent a lot of time just trying to figure that out and so forth. So to make it more complex and more difficult for your customers, it ought to be taken away from it. It ought to be out of there completely. Anyway, I'll yield the rest of my time for the next person.

MCKENNEY: Thank you. We appreciate that. Next speaker is Lawrence Rank, and Gary

Wise is on deck.

MR. RANK: I want to say I'm with the Del Prado Homeowners Association and our whole board showed up tonight. We feel pretty strongly about this and I want to thank Mr. Roy who has been very helpful over the past couple years providing information and also Mr. Hooper. He's here. They've been very helpful to us. The point that I was trying to want to bring up is the fact that over the past two years since the rates first started, went up on the first of June in 2009, by the time we get to the raise that's going to come with the budget based system, our monthly connection costs for sewers and for the fact that we have multiple meters will go up about almost \$5800 a month. Now, that may not seem significant but on a \$20,000 every two-month water bill, that means our water bills are going to be going up to 27, \$28,000, and we pay all the water for the whole association. We have 133 meters of which 96 are for multiple dwellings and we've got some irrigation meters, six of those; and what I find is that our actual usage of water has gone down not 20 percent but probably more in the four to eight percent range. But over that same period of time our monthly bills have gone up by \$5800, and for 423 units we have to go back to our homeowners and explain that it's costing more just for the luxury of having connectivity. I think you need to step back and take a look at some of those meter charges that are going to come on the 1st of July and see if you need to jump up as much as they need to jump up. Thank you.

MCKENNEY: Next is Gary Wise.

MR. WISE: I'm Gary Wise. Can you all hear me from here?

MCKENNEY: On deck is Michael Kogus.

MR. WISE: I want to reiterate from some of the previous speakers and also talk about this being a fait accompli, if you will. The opening speaker says the rates take effect in July, so why

are we here? My issue goes back to not only how they are charging additional water rates but how you're charging sewer reclaimed water usage. Every drop that is going through my meter is showing up on my sewer bill also, and that is just an absolute fabrication. I don't know how you can charge me for recycled water that goes into my ground or my swimming pool or my spa that evaporates off of my yard. So you're already charging me for something that you're not doing and I find that not only irritating but to be just illegal as hell. And anything past that, I'll go back to what this gentleman over here had to say: You're increasing my rates telling me that you're having me conserve water when, in fact, the state is recommending a reduction of 20 percent by 2012, not -- 2020, excuse me -- not next year, not this year. What have you done with the state or the city local municipalities for building codes to reclaim gray water coming out of the shower, the sinks, to put a septic tank to reclaim that water and use it for irrigation in each one of the homes? Have any of you done any of that, to check with the local building codes? We keep getting more and more high-density residential areas but no change in how the buildings are plumbed, how the reclaimed water will be used or could be used. In Hawaii they have rain barrels that they use to recycle water and do things that way. There's no provision in your plan for doing that I see. I yield the rest of my time.

MCKENNEY: Michael Kogus, and then on deck will be John Immel.

MR. KOGUS: I'm sorry. I cannot speak that loud but you can see me. What I want to comment about, again, all this rating structure is supposed to be revenue neutral. What I see is additional influx of money which is coming from us as the taxpayers into the logistic, and what want to know is where that excess of money going to go. To understand that I went to the website and I looked at the last fiscal year financial year. What I noticed for the last fiscal year all of us together, businesses and regular households, we paid for clean water 40 million dollars.

Currently the District has 170 million dollars in reserves, which is way more than we're paying for many, many years for clean water. Additionally, out of those 170 million dollars, 57 million dollars unrestricted, undesignated, just plain cash sitting there for no good reason whatsoever and, of course, you would think that would be used for something. Well, no. Most of that money actually invested in FNMA/FRDMC. If my financial advisor will tell me to invest my money (unintelligible), I would yesterday fire him yesterday. But that's okay. You do things differently. And usually another eight million dollars is Water Stabilization Fund. So if price of water go up and down, that money will be used for that but again eight million dollars, there is no need for that money. So if you have 63 million dollars raise, enough money to give free water for everybody in this District for 6 years. Additionally, we have lots of construction, which is wonderful what can do for the long-term projects; however, you got 150 million dollars in loans for additional construction. You can also see on the same page that over period for the payback for that loan, too, you're going to pay 160 million dollars in interest for that money. So in reality of those 150 million dollars you got only 54. All of the rest of the money, our tax money, will be wasted. Incredible. Another thing, last year District has a profit basically 21 million dollars, which is more than enough again to give us free water perpetually and, again, I'm just giving you creative ways to look at the numbers but no matter from which direction you look at the numbers, we have so much money in the District, we don't know what to do with. Now, let's take a look at another thing. One of the increases we're going to have an increase in recycled water. One of the big users of recycled water city, county, and the water district itself. So in a sense if you wasting water, we'll have to pay for it again. So, again, all this new rates eventually is going to take more money out of our community. Tens of millions of dollars will be taken out of our community and invested to nowhere, no benefit to

us. What that means, thousands of jobs will be lost here. This comes at the same time when the State of California will start laying off people, hacking benefits, hacking all across. So we're going to get a double whammy starting this summer. Come on. This is insane. We have so much money we can give free water to everybody and still have excellent structure. So all I want to say in conclusion, Board, you have an opportunity right now to really make a difference. You can really structure all of our debts and all of our savings and use that money not only for the period of time suspend everybody's water bills, you can send a message that there is a better way to manage. You can show to everybody. You can contact newspaper. You can contact TV and really make a difference.

MCKENNEY: I do want to commend the creativity there but I think there are a couple things that do need to be pointed out. The District's annual budget is about one hundred million dollars a year. The biggest component of that by far is buying imported water. The second biggest component of that is collecting, treating and safely discharging sewage, and the reserves that we hold are for completely separate purposes. For the most part they're for capital replacement to secure the replacement of the infrastructure that is aging and will eventually need to be replaced and may need to be replaced in an emergency. So we have lots of regular Board Meetings about our finances and our investments that are in addition to the rate structure discussion we're having this evening. So this is John Immel, and John Chevalier is on deck.

MR. IMMEL: This is a comment about the structure of the indoor and outdoor water budget. When I got the advertisement I calmed down and found out what my -- for my property, it's a condominium. I have three people and I had 300 square feet of land. In reality I have a single-family home not attached. I should have got the four. When I did a calculation on my land, I came up with a very high number and so I made a call and they came out last week and

measured. It went from an estimated 300 square feet to 2200 square feet. So it appears from a personal standpoint right now there's a gain aspect to making the water budget low. And so as you use more water, you have to pay the higher rate. So how do you -- I mean the estimate of where your houses are, in my development there are attached homes. Are they single-family or are they condominiums? They're 2000-square feet homes. So it sounds like they should be single-family dwellings or four person. On a personal note, my example to you, I think you're gaming this system. Thank you.

MCKENNEY: I assure you that there's no conspiracy to game the system but there are going to be a lot of comments tonight about actual errors and I want to re-emphasize that we do have a process that's going to be in place where if you have questions about the accuracy of your allocation and so forth, you will always be able to come in and talk with Chuck and his department about that. We're perfectly willing to go out and verify numbers, to look at variances, and that sort of thing. It's certainly not our goal to trip anybody up, and it's our intention that the basic allocations in this budget system are generous enough to where if we're not exactly accurate, it won't be a problem for most people; but if you have an issue, we are going to have feedback. I know a lot of you are going to have those questions is the reason I'm addressing that.

MR. IMMEL: So the issue is already settled from what you're saying?

MCKENNEY: No. I'm saying that the proposal is included in that process, which is what the other districts have also done that have used this system. So you're John Chevalier?

MR. CHEVALIER: Yes.

MCKENNEY: And Jeff White is on deck.

MR. CHEVALIER: Gentlemen, ladies, I have two issues. One is that I was in here about a year ago because I got dinged on having my sprinklers on the wrong day. My fault, my mistake, but I talked at length with the gentleman from your operation here who said he was kind of in charge of that whole program, and I kind of explained to him how I didn't like that alternating day schedule. It was just hard to keep reprogramming the sprinklers all the time, and he went into kind of a lot of detail explaining that -- and this is a year ago -- that we've been under drought conditions, we've had short rainfall, and this was a necessary preamble to save the requisite amount of water and if we met our goal of 20-percent reduction, then we're not going to have to go to this plan that you have now. In the subsequent year we've had record rainfall. Look to the north and our mountains are covered with snow. We've got a lot of snow pack. There's a lot of water. I don't know anybody who hasn't just turned their sprinklers completely off for most of the winter. So, I'm sorry, I didn't run all the numbers, but I'm just not buying that we're having water shortage. Now, you said earlier that that's not part of it, but that's not what I was told a year ago. My second issue is -- and I can kind of understand the rationale you have over the structured rate increase, but it's going to be fundamentally unfair to retired people and people who work out of the house. I read a sentence in there that it's going to be largely based on the number of people in a home, and if you think about it, you could have a working couple with three kids who are gone all day. They're not going to be using as much water as say my wife and I who both work out of the house. We're home all day long. That's 30 toilet flushes a day. That's breakfast, lunch and dinner. Sorry, but a couple of gallons at a pop, you can see where it adds up. We're washing dishes, we're cooking, and there's a fundamental mismatch there if you use the number of people and I think

you're going to be opening a can of worms because if you make some sort of allowance or variance for that, then you're just opening the door to, you know, 100 different requests for variances. I just think you're creating a complicated situation that it already takes my wife all day long just to go through the bills and figure them out; and if we have to start looking at multiple structure rates for every single thing, it's just going to be a terrible burden, not just for the cost but for just the time and hassle to understand it. And, lastly, I came with two issues. I have three based on something that your staff member said at the beginning, which really raised my antennas, something about "All you folks in here are probably not going to be the people that are really affected by this. It's going to be the other guy, the wasteful guy". That's a real dangerous thing to me because that strikes me as governmental and quasi governmental. "Let's stick it to the other guy and, you know, don't worry. We're going to pass this thing. It's not really going to hurt you", you know. We are the other guy and we may be trying to conserve water today and stick it to the guy who's not conserving it, but tomorrow we may be the ones that are getting it stuck to. So I just don't like the whole concept of it. That's basically my thoughts.

MCKENNEY: Next is Jeff White and Mark Keck. Is Jeff White not here? All right. Mark Keck, and Ronald Beaufort will be on deck.

MR. KECK: Thank you for listening to me. I read the glossy brochure and was more confused afterwards than when I started. And one of the primary concerns that struck me was when I was going to college in Long Beach, they had a water shortage and they asked everybody to conserve water and that was in the days where everybody wasted. We had the big toilets and the other nonsense, and everybody did such a good job that six months later the water board came back and said, "We're going out of business. We have to raise your rates". So that

bothers me. My first question to you is on this tiered system if everybody stayed at the first tier, will you go out of business or will you raise our rates? And based on that, if not everybody can go to the first tier, is this a monetary-based thing versus a conservation-based thing? Because as I've seen this, the entire fee-based system is a penalty-based system. Save as much as you can, we'll hurt you a little bit; waste it, we'll hurt you a lot. I see no reward or benefit in this system to me. I see the money going out even if I try like hell to conserve. What I would like to see as an option to this fee-based thing is that you save monetary neutral. I don't see that at all because at the very lowest rate it's costing me more. I propose to you that you look at it this way: If a person or family or business or whatever can stay in the bottom two levels, pay the rate. The money that you gather from the third fourth and fifth tier, why don't you turn that around and reward the people who are trying to stay in the lower rates? That way would be truly fee neutral. You would be rewarding people to save water, and it would seem a hell of a lot more fair, and people would be able to see where the money goes instead of just disappearing. That's pretty much all I have to say.

MR. BEAUFORT: I'm over here.

MCKENNEY: Are you Ronald Beaufort?

MR. BEAUFORT: Yes.

MCKENNEY: And Scott Linsley is on deck.

MR. BEAUFORT: I guess I'm almost embarrassed to talk about our situation. We're retired. We have a second home. We use about one-quarter of our allocation, so we conserve. My wife holds a bucket up to the shower head to water the plants outside, and what I saw when I saw the rate structure is it should be more of a slope or a ramp if you're going to keep it so that the heavy-users pay more instead of the stair step, or have more steps. For instance, we're

going to pay the rate in the lower stair, we have for years; but we believe since we conserve, we should get a better rate. In other words, a smaller step in the first tier, or maybe three steps in the first tier. And it doesn't seem like it's plausible because the days of computers you can just assign a number to our account and if we went over it, you'd just step us up to the next tier. So that's all I have to say.

MCKENNEY: Thank you. Are you Scott Linsley?

MR. LINSLEY: Yes.

MCKENNEY: And Charles Manazir is on deck.

MR. LINSLEY: I have a home. It's a normal home in Mission Viejo, nothing special. I don't have a pool. We're on a tier system now, one through five. You start out at a buck 16. You go up to \$1.97. In this system your tier one and two, you have your allowances, obviously, for people in tier one, and then tier two is your exterior; but any gauge or any deviance from that and you're slapped up to a 75-percent increase. We have an 18-percent increase in tier one and we have an 18-percent increase in tier two. So the brochure on the website says, oh, yeah, it's going to increase, but you approved for a 16-percent increase two years ago when you put the budget in. You should have said, "It's going to go up we know 16 percent because we approved the rate increase", and you didn't express that. Because of the tier one and tier two you increased those the 18 percent, and I'm sure that there's some savings in water that you're anticipating due to the 199-percent increase in tier four and the 459-percent increase of the rate in tier five because you're assuming that the people that are going to be in those tiers are going to immediately have a heart attack with their rates and then conserve water. So you've done something but you didn't share with us how much less water we're going to be consuming since you buy most of the water out of the thing which is going to help in the project. A couple

other things that seem to be vague and I couldn't put together was future wholesale increases through mid-2016. We get slammed immediately. So, if purchasing your water increases, you're going to pass that through it appeared based on how I read the thing immediately. But you don't say how you're going to pass that through. Is it going to be at the same tier increases that you have, 18 percent for tier one, two, and then higher for tier three through five? Or are you going to just equally allocate those increased water costs equally throughout the first -- or through the five tiers? I don't know. The other thing is your ET and how does the consumer figure this out? One smart lady went to the Internet and pulled it down but, you know, you're right. She was right in indicating, you know, that's on an immediate scale. We don't know what happened that day but we get charged for that, and that's the biggest thing that scares me is I now have no control. So are you going to post your history on what the 110 stations were and what those calculations were? Because what the calculation was on the website was January. There's very little evaporation table in January. So I don't know what the -- how that partakes to August or September or October when it's drier than that. So we have no clue, and this is called a budget rate. I don't know whose budget because I can't budget because I don't know what the ET factor is for my house. I don't know how to manage that if I'm on a regular water system unless I spend \$200 to put the weather station up and measure it at my own house. So I'm not sure how we can come up with a budget when all this seems very loose and unsure as far as what's really going to happen with the water increase. So I calculated the bill. I came up with a 17 percent increase. Another thing that kind of scared me was the wording on the website, which when I put in what my new rates were going to be, there was a \$26.90 sewage charge. That's a 90-percent increase, and so there was no talk in the pamphlet about that. Now -- and, again, it said wet sewage. So I'm not sure if that was your flat rate for

water, plus your flat rate for sewage, plus your variable for sewage. I couldn't tell because it wasn't explained. So my biggest complaint is the lack of information that was provided. If you want us to be able to understand how our bill is going to increase, there was a lot of things that were left out of it and that's what concerned me, and I realize that those are variables. But if you put in some assumptions that you expect based on what your experience level is, then we might be able to budget. But at this point in time I have no clue what it's going to be except I know in January it's an immediate 16 or 17-percent increase because that's what was built in. Thank you.

MCKENNEY: Charles -- how do you say your last name?

MR. MANAZIR: Manazir.

MCKENNEY: Manazir is next, and John Palazzolo is on deck.

MR. MANAZIR: My basic question is from your brochure you approved rates on 1 June 2011 and now you're proposing an increase on 1 July 2011. The approved rates for 1 June are already up 16.4 percent from our basic rate and the same holds for the basic service charges up 16.3 percent. So why do we need another rate increase when you already have one that's approved going into effect on the 1st of June?

MCKENNEY: Good question.

VOICE: And an increase in the sewer fee.

MCKENNEY: Is that the extent of your comment?

MR. MANAZIR: Yes, sir.

MCKENNEY: I do want to clarify that we do have a rate increase that's scheduled to occur in June. It's the last of three years of rate increases that started two years ago. What's supposed to -- what we're considering taking effect in July is a rate restructuring. It's not intended to be a

rate increase.

VOICE: That's a play of words.

MCKENNEY: We are legally required to tell you that it may be a rate increase because there are some specific categories in which the rates go up but it is intended to be District-wide, revenue-neutral, and to redistribute the revenue based on efficiency rather than on size of lots. It is not intended to be an additive rating. I understand that when you look at your bill projections, it's possible that your bills may go up. It's also possible that your bills may go down, and it's also possible that whatever happens may be adjusted as you work with customer service. But it is true that there's a rate increase scheduled to take effect in June and what we're contemplating doing in July is a rate restructuring, not intended to be an across-the-board rate increase. So the next speaker is John Palazzolo, and Neal Hull will be on deck.

MR. PALAZZOLO: Hi there. I was curious. By law how much notice do you have to give the public for hearings like this?

GUMERMAN: I believe it's 45 days.

GUMERMAN: And 60 days for public agencies.

MR. PALAZZOLO: I got that notice. It's hard for me to understand how with as many customers as you have with that little bit of time for any of us to get together and really fight something like this. The things I have to say here -- let me get my thoughts going here. You gave us notice. It says in your literature that if more than 50 percent of the people objected to this, then you probably wouldn't put it through. So to me it's very unfair to only give the public 60 days notice. You also talk about in your literature right here that you have sent with my bill, you talk about this rate increase has to do with balancing your budget. I've heard nobody talk about that tonight. To maybe we shouldn't -- our rates shouldn't be raised because

you need to balance your budget, especially with the huge amounts that you guys have in your savings. It talks here in your own literature, efficiency rewarded. It says the new system would reward efficient water use. Customers whose water use remains within their water budgets would be billed at lower rates. That's incorrect. Everything in your literature, the rates are going up. So you are -- you're lying to us. You're telling us my rate is going to go down or stay the same, okay. So you folks are not telling us the truth. You guys talk about we have to conserve 20 percent. You had other people speak how that's not true. You know, there is no limit. You guys are letting us use as much water as we want, okay. So there must not be a water shortage. In your own literature you're letting us use as much water as we want. We might have to pay a little more, but you're not putting any limits on it. So to me this is very false, this thing that you guys have developed to make us think we're running out of water or things of that nature. When it comes to pools and spas, okay, I fall into that category, okay. There should be a variance for pools and spas. Just my spa alone holds about 250 gallons, which is a very small spa. I should not be penalized if I have to replace that water a couple times a year, and that variance should be included in other variances that you have along with the number of people in a home. The meter rates going up, I just can't understand that. I can understand if you guys have a problem buying water from other places and you've got to raise the fees, but to increase our meter rates and things of that nature, you know, now, you guys, it's a money grab. And as far as conservation I feel that the water department needs to conserve. You guys have done nothing. There are other people that have talked about the water conservation in other states, in Hawaii. You guys don't offer meters that go on our shower faucets that tell you how many gallons a minute are coming out. If someone had a meter on their showerhead that said you're using 20 gallons a minute, you might turn the pressure

down a little bit, but you guys don't do that. So, anyway, that's pretty much what I have to say -- oh, about balancing the budget. I'm curious. I wonder if balancing that budget has anything to do with your pensions and retirements. Thank you.

MCKENNEY: Next is Neal Hull, and Howard Revier is on deck.

MR. HULL: I'm Neal Hull. I live in Kite Hill. I'm a former President of the Board of Kite Hill and I only mention that because if I have enough time left over in that five minutes, I'll say something nice about you guys. I've got other things to cover first.

MCKENNEY: Talk fast.

MR. HULL: Okay. You guys think that taking a bath every day is too much? I don't, but if you take a bath every day, if you measure what water goes into a tub, and the only reason I know this is because we're going to remodel our master bathroom and the average bathtub takes 65 gallons of water. So I guess if you take a bath once a day, you better not brush your teeth, you better not go to the bathroom or don't flush that toilet at least. See what I mean? That's not realistic. If you think that's a fair amount of water, 65 gallons is not. And if you've got a wife, you better let her have that bath. Now, I'm saying that with humor but at the same time it's a fact. It's not realistic to say 65 gallons is enough. Okay. Another thing in regards to from what this gentleman over here said and, man, was he prepared, if he's correct in what he put out there, we don't have a water shortage and I think there's a little psychological game going on. Maybe a few of you are old enough to remember back in the 1970's when we supposedly had that gasoline shortage and we had to stay in line for five gallons of gas, and you'd be in line for 45 minutes at a time, and you would have paid just about anything for that gas to get out of having to stay in those lines. So the price was not the matter, because psychologically you thought, "Oh, my God, here I am in line at 6 o'clock to get to my job at 8

o'clock", and I think that's part of this price increase and I don't think that -- I don't think it's fair, the price increase. Now, my wife and I, we do everything we can to use less and less water. We use the little misters and stuff like that around the yard. When we first moved in to Kite Hill, we had these beautiful toilets that used about four gallons of water, reduced that down to a two-gallon water consumption and since then we've even brought it down to the 1.3. We're doing what we can, but at the same time I don't think your allocation is even close to fair. And go home and Google "tubs" and find out if I'm not correct about that water usage and taking a bath every day isn't too much to ask. Okay. In regards to -- well, this last gentleman brought up in regards to budget. Most people out here know somebody in their family or a neighbor that's out of work. Money is tight. And they're doing their best to stretch every dollar they can, and if the one gentleman is correct in regards to the funds you guys have, this is not the time to raise rates if it's not truly necessary. And I was wondering what your company -- and I realize it is a private company -- I was wondering what your company is doing to conserve. Have you guys frozen wages for three years or done some conservation in that way? You know what I mean? We are all in this together. America is hurting right now and raising prices and rates is not a good thing to do right now unless it's positively, positively necessary. I mean I've got neighbors up and down the street that are out of work. We've got foreclosure signs, you know. This is not the time to raise the rates unless you positively have to.

LIZOTTE: Those of us who are on Social Security haven't had a raise in two years,.

MR. HULL: And you're not going to for a lot longer, too, from what they plan to do.

MCKENNEY: You've got one minute.

MR. HULL: Well, let's see here. I'll make a suggestion and then something nice. I live on

Jaeger Drive, which is the largest street in Kite Hill that has houses on it. We had such a bad problem with the roads there, they were caving in, and what it was is there was water, underground water running, and they dug a hole down there and it was just like -- you wouldn't believe. It was just like -- help me here.

VOICE: Underground river.

MR. HULL: Thank you. All right. My question is have you guys ever thought about drilling for water? A lot of cities furnish their own water. They do. They drill for water. Maybe we've got an abundance of water because, boy, just drill it on Jaeger Drive. I'll show you the spot.

Okay. And the last thing I got to say, and this is from my neighbor across the street, he was really uptight in regards to the rates and also how you guys measure what usage he should have for outside. Now, they sent somebody out and they measured his property and the problem that they have is when you look at these shots from the sky, it doesn't show the real depth. What it shows is like an angle. Think of a Christmas tree or a pyramid and you've got more ground.

Most of our homes up there are on a hill so the ground is on a slant. It goes like this if you can see. When you measure like this, that's a lot different than if you go this way. And so when the guys come out and they look at it and they measure it, from what I understand from my neighbor, you guys have been fair about that; but I can also understand why there's a problem and that should always be taken into consideration. That's all I've got to say.

MCKENNEY: Thank you. While Howard is walking up, I'll note that Howard is a member of our Citizens' Advisory Committee and he raised this issue about the slopes and whether that affects measurement in our Advisory Committee meeting a couple weeks ago and we're hoping to address that. I also want to note in general for everybody's information, Moulton Niguel Water District is not a private water company. It's a public agency. We do not make

profit. We operate like a government agency.

VOICE: That's not a good thing to say.

MR. REVIER: This always happens when I get up to speak.

MCKENNEY: The comment was made earlier that we made a profit last year. The comment was just made we're a private company. That's not the case. There are water companies in Orange County that have shareholders outside of the state; they're obligated to make a profit; they're protected by the PUC to make a profit. We do not make profit. Our costs have to be made up by the rates we collect and the only thing we're allowed to use our rates for is to operate the District. So, Howard Revier is up, and Pat Key is on deck.

MR. REVIER: Thank you very much. I'm Howard Revier and it is a pleasure to be here with you tonight and the rest of you concerned citizens. Two things I wanted to talk about, and you'll be happy to hear that because it is dragging on. The first is credibility. I don't think there's anything intrinsic about the date July 1st to put this in because from what we've heard you want to get it right. If you're going to have credibility with the allocations, you're going to change it anyway, please get the allocations right so everybody's square footage on landscape can be correct. And if that takes to August or September, don't let that stop you. Get out there and get them all right. Hear from everybody first before you implement this. Secondly, no such thing as revenue neutral. I think we've all touched on that, but please do not use a rebate program in order to take from the people who are not efficient and give to the people who buy some appliance that needs a form or something else to make it revenue neutral. If it's going to be revenue neutral, I would ask that you simply take whatever you take in and give it back to the rate payers. That's all.

MCKENNEY: You're Pat Key?

MS. KEY: I am.

MCKENNEY: And Ms. Sharp I think is on deck. I won't try to say the first name.

MR. SHARP: It's Megeya.

MCKENNEY: Is that your name?

MR. SHARP: That's not my name. That's my wife's name.

MCKENNEY: I was going to say you have very nice handwriting.

MR. SHARP: Mine's terrible.

MCKENNEY: Pat, go ahead.

MS. KEY: First I want to say whenever I've called Moulton Niguel Water District everybody has been very responsive and very pleasant. So they've been very, very nice to work with and I really appreciate that. And I appreciate the hassles that you go through with water and I know it's expensive, and I know there's all these turf wars. So I know it's a difficult thing. So believe me, I appreciate the work that you put into this, everybody in the organization. It's been mentioned before there was a rate change in '05. There was a 16-percent increase in September of 2010, another one I think in October of 2000 -- or later last year. But, anyway, the water costs have gone up 28 percent since '05. Our water rates have gone up 32 percent. So I think there should be some extra money there unless I'm reading this stuff and I'm doing it incorrectly. I think the other gentleman mentioned right now it's very, very difficult. We got a thing in Moulton Ranch where I live and it said 40 percent of all the sales in Moulton Ranch -- I think it was Moulton Ranch or Laguna Hills; I'm not sure which -- was either short sales or foreclosures. I was shocked. Forty percent of the sales. So you have a lot of people that are hurting that don't have a lot of money that are looking for ways to stretch things right now. Trying to find a job and there just aren't jobs. So it isn't that people don't want to work; they

can't find jobs. So I think now is a time we need to do something different. It isn't business as usual; it's a very different time. So given that, I have some questions and before we increase rates, you know, I would like to know what the District has done to try and bring down the costs. Like a private business. In a private business if your costs go up, customers can go somewhere else because you have to raise prices. We can't go anywhere else. But in a private business when my costs go up and I have to increase my prices, I have to do something more for the customer or they'll go to somebody else. You guys don't lose customers, but I'd like to see some of that. Just going through some of the documents on the website, in the financial section on page 41 it says, "For this fiscal year the District funded the employee contributions on their behalf" -- I think for the retirement -- "to the tune of \$407,091". Why is the District -- I mean the employees are supposed to pay I think seven percent for their retirement benefits. Why did the District fund on the employees' behalf \$407,000?

LIZOTTE: It's worse than that.

MS. KEY: But that's what you've got on your website.

LIZOTTE: That's not the true story.

MS. KEY: But if it's worse than that, let's think about doing something better than that so you can brag about what you're doing instead of being embarrassed by what's going on. Another thing was -- and I think this is part of the government thing. We see it in Wisconsin, we see it in Ohio, and I mean, guys, you work for a government agency and that's not a bad thing but I think things are different now than they used to be. It looks to me from the private sector you have very generous benefits. On top of the ten percent of the salary contribution that you do -- that you give to the defined benefit plan, you also match another two percent of the employee's salary. Yikes. I'd love to have that in the private industry. I mean you need to rethink some of

these. I wish it was that way for everybody but I don't think it is. Your dues and membership costs, \$65,000. That's not a whole lot of money in your budget but it hasn't come down significantly in your budget. I mean can't we cut some of this? Travel and meetings \$60,000. That's not coming down. Can't we cut some of this? Your plan of retiring 2 percent at 55, it doesn't work out at a whole bunch of money if a guy works for ten years but it looks like I could work here, if I was younger, I could work here for ten years and retire at 55 and get retirement for 30 years, if I live to 85. Work for ten and get retirement for 30 and you can't make that up in volume. It just doesn't work. So the other thing is for your retirement health care, if your employees elect a PPO -- and it's nice that you offer a PPO -- they pay less than one percent of the cost. The District picks up the other 99 percent. Say what? I mean you cannot do this anymore. I'd like to know what your five-year plan is. So how does this -- you know, what beyond this year. And then if I reduce my water in October and November if the new rate plan goes in and I have a bunch of house guests in December and I'm way under my allocation, but everybody is taking baths and showers in December, I'm going to eat it but, you know, I want what I didn't use in October and November. This is just difficult to do this. I want you guys to stay in business. I think you do a good job and I like what you do and I need my water; but if we do conserve more, you'll not make money but you'll get less revenue. If you get less revenue, how do you make this work except to raise rates? Anyway, thank you for your time.

MS. SHARP: My name is Megeya Sharp, and I hope I'm loud enough for everybody to hear me.

MCKENNEY: Just a minute. I want to let you know that John Kalianov is on deck. Go ahead.

MS. SHARP: Okay. I would like to say one thing that stands out, at least from what I'm

getting. The feedback here is it would really bother me if I were sitting up there as an elected official that everybody here feels that you've already made up your mind. That would really bother me.

LIZOTTE: I haven't made up my mind.

LIZOTTE: One other thing --

MCKENNEY: Let's let the public present their --

LIZOTTE: I want to give them some information.

MCKENNEY: We're listening. I'm presiding over the meeting. Restart the timer, please.

VOICE: I'd like to make a comment. I didn't put my name to speak but I'd like to jump in.

MCKENNEY: No, you're not. You'll wait your turn to be called.

VOICE: The reason I would like to do that is because that gentleman had a lot of facts and you stopped him from speaking. This clock is absolutely ridiculous. If we have to be here to midnight, 12 o'clock in the morning or come another night, then that's what it is. You cannot just limit people when they're prepared like that and cut them off and one minute, two minutes, this is very important to everybody that's here and everybody else that couldn't make it. So it's not fair for you to put a clock timer to people that have prepared and are here. I wasn't going to speak but that's not right.

MCKENNEY: Mr. Hulsy was very prepared. We appreciate that. He's also made his comments in writing. We can receive all of your comments in writing. At this point we're operating under a set of rules. It's not unusual at all for Public Hearings to have even less than five minutes per speaker but at this point I'd like to give Megeya Sharp her five minutes and we're listening.

VOICE: One question. If somebody wants to give their time away, that's normal, so you don't

accept that?

MCKENNEY: No.

FIORE: Are we going to be responding to any of these?

MCKENNEY: You said you could.

FIORE: During this process?

MCKENNEY: During the process we are going to discuss it. Whether we have more discussion tonight depends on what time we get done listening to the testimony.

VOICE: We can stay to midnight.

MCKENNEY: Very nice of you to offer. At this point I would like to start the five minutes for Megeya Sharp who's been waiting patiently for her turn.

MS. SHARP: The one sentence that brought about all this is the body language up there also says a lot and the gentleman who raised his hand, I don't know who you represent, what city, but we can tell that you're listening to everything.

LIZOTTE: May I respond to her?

MCKENNEY: No.

MS. SHARP: Let me know where he's from.

LIZOTTE: I'll tell you who I am. I have been on this Board for 40 years. I was the President for 33 years up until two years ago. I know a lot about this District and I want to tell you when this water rate increase came up a couple years ago, three members out of the seven of this Board voted no against the water rate increase. We had a 16 percent increase in 2009, a 16 percent increase in 2010, and you got another 16 percent increase in somewhat -- you can't see it because we're talking about the Water-Based Rate voted no. Now, I'm as upset as you people are.

VOICE: We're glad to hear that.

MS. SHARP: So now I'm probably down to four and a half minutes. I would just like to say that San Diego Gas and Electric, of which most of us are victims as well, did a rate-based structure this way and I cannot begin to tell you every month how those rates have gone up and how we are allocated and you almost have to not be living in your house to get charged \$200 a month. If you live in your house, it's \$500 a month. That same thing is going to happen with this. When you people started getting on the band wagon and saying "Let's all conserve" and all the good kids tried doing what you asked of us and conserved and every month, "Congratulations, your usage has gone down 20 percent from last month" or "Your usage has gone down 30 percent". What was my reward? A higher water bill. That didn't make any sense to me. It made me want to go ahead and use the water. Nobody is abiding by this, and this is my reward for doing it. So that was very disconcerting. The fact that you're using satellite pictures to do our lot sizes and then whatever Variance you choose, depending on the size of the house four people are there, why would all of us want to go through more paperwork and say we have more people there? I've got half the military in my house on weekends taking showers and baths and they take military showers. The point of it is every single weekend my rates are going to go up. And this other lady indicated when you have company over your house, your rates are going to go up. If there's no water shortage, I would applaud your efforts to postpone this indefinitely, get more feedback and vote from the community who could not be here because 5:30 is a dinner hour, rush hour back from work. All of us had to make special arrangements to be here at the 5:30 hour to get on the agenda. I would really applaud your efforts to look in that direction, especially if you're putting a rate change in, but once the rate change is in, you people never roll back prices. Enough people ahead of me have

indicated the economy the way it is right now, the seventh largest economy in the world is California and we're in the dumps right now. What an awful, unethical time to dump this on people. So, again, I would like to reiterate and encourage all of you to postpone this. If you really are intent and you really do say "If 50 percent or more than 50 percent are against this, we won't do it", then put it out on the June primary or put it out for a ballot vote and have everybody mail it back in to you.

MCKENNEY: So John Kalianov is next, and Sid Berenson is on deck.

MR. KALIANOV: First of all, I'd like to just reiterate some of what's been said but I want to reiterate the point that we've had three, not two, three 16 percent increases in our water rates in the last three years once June 1st hits. That is compounded so it's a 57 percent increase in our water rates in the course of 36 months, roughly, give or take. That's more than my health insurance has gone up and I'm a private business owner. That's more than my college education plan requires for me to go up given what's happened with college education.

Now, if there's two things in our economy that are getting hit hard with inflationary pressure, it's health insurance and college education, and I congratulate this Board for beating those numbers. A couple of years ago we were told we needed to save 20 percent in terms of our water usage by 2020. According to our high-tech tote board here, we're at 23 percent now.

So what I'm seeing with this revenue neutral rate change or rate plan is the fact that we have backed ourselves into a corner because now we have to figure out a way that we've gone from the SUV to the Prius. We're not going to use as much gas; we're not going to collect as much tax. So what we have to do is find another way to generate revenue in order to handle our budgets, pensions, capital improvements, what have you. Speaking of capital improvements, I measured 18 and a half inches of rain in my back yard during the month of December. How

much of that rain water was captured by this water district? I understand we have import our water. I understand we're at the whim and will of Metropolitan Water District and effluent flows downstream as we all know. What have we done politically with other water boards to talk to these people about relaxing these rate increases, to go to the federal government and talk to the EPA about shutting down the water supply from Northern California that artificially increases our rates? What have we done about that?

I went online to check my own rates. I got 50 percent of usage of what my water usage was but my bill will go up 17 percent. It doesn't make sense. So suddenly we go to this new rate structure and I haven't heard a word about the fact that we still have to worry about saving water. Yet, previous to this we've had water police going around figuring out when are people watering their yard. My 92-year-old World War II hero neighbor got a warning letter, not because he was watering too much but he was doing it on the wrong day, and I'm sure we're doing this at night and probably paying time and a half and/or overtime for people to go out and monitor these things. One other thing. Since I'm of the opinion that this is a fait accompli, anyway, and this will happen because according to your document here, if a majority of customers or records of owners have not written in a protest, not showed up, but handed in a written protest, the Board is free to go ahead and pass this anyway -- So if you all hadn't written a letter and given it to him personally, which I plan on doing right now, what we say is a little bit on deaf ears. -- Final point. As far as residential rates are concerned, yes, the prices are going up. The first two tiers are going up two percent, and this is from the June increase. This is not from now. This is from June. Two percent on the first two, 51 percent on the third, 158 percent on the fourth, and 381 percent on the fifth tier. I'm going to assume that this is going to go through because I live in a reality world. One thing I really recommend that

you guys consider is allowing those that are under-budget to roll those numbers to the following month.

VOICE: Yeah

MR. KALIANOV: As other water districts do. So if I use eight billing units and my budget is 14, I should have six billing units given to me. Remember rollover with AT & T, what have you? I should be able to roll over my billing units to the following month. Now, what others do is they reset that to zero, the rollover, once a year. So thank you very much for your time.

MCKENNEY: A water district that does that?

MR. KALIANOV: Yes, sure. It is Rancho --

MCKENNEY: Rancho California Water District?

MR. KALIANOV: It's in Temecula.

LIZOTTE: El Toro rolls back their rates.

VOICE: And Rancho California.

MCKENNEY: You're talking about the rollover of unused budgeted water?

MR. KALIANOV: Yeah, thank you.

MCKENNEY: Okay. So Sid Berenson is up next, and Ed Palmer is on deck.

MR. BERENSON: My name is Sid Berenson and I'm the President of the Laguna Sur Homeowners Association and we recently, at the suggestion of the water company, put in a \$150,000 system, which is automated and directed by satellite, GPS, and also some weather stations within the local area. The information that we receive from that tells the system exactly how much water to use due to the fact that it's drier or it's rained recently or whatever the temperature. My question is if we put this investment in here, if that water demand is higher because it says that it needs more water and we have no control over this any more, are there

provisions in your rules to cover that situation so that we're made whole on our investment?

MCKENNEY: Ed Palmer is up, and Dale Tyler is next.

MR. PALMER: Good evening. I guess bottom line is I need your help. There are certain things that I don't understand in what you've mailed to me and I've used your website to find out the calculators and so forth, but I'm quite confused on things. First of all, I'm going back to when you first got into the conservative act. I followed that religiously and I cut back everywhere I could possibly cut back inside of my home and outside. My home in Laguna Niguel is just me. There is no one else. And you've allocated 11 units to me. I'm hardscape but there's not much vegetation and flowers and that kind of stuff. I've turned off sprinklers where I could turn them off. I've done all the things you've heard tonight to be conservative as possible. Yet, I still find myself getting dinged. For the last I'd say six months of this year my bill has been going up because of the rates and so forth and the usage has been going up. It's kind of interesting because I've cut back. I've cut back everywhere you can think of: showers, washing machines, and so forth. Outside I've looked for leaks. Can't find them. Inside no leaks, and yet everything keeps going up. There's been a 26-percent increase going into the beginning of the year and now I find in my February bill there's a substantial increase; and once I went to your website, beside the 26-percent increase, it said, "If we go to this Water-Budget Based Rate Structure, here's what your bill is going to look like or would look like for February", and it went from something like 80 bucks to \$227.00. Now, that is almost insane and I'd be going to the funny farm if I would accept the Rate Budget-Based Structure.

FIORE : That's based on a calculation?

MR. PALMER: Your own website. And I looked at that and I thought, "There ain't no way

that I'm going to approve anything close to this". And if you do put it into effect without the public really getting involved here, I think you're going to have a real fight on your hands, because as we've heard all night long from many people, this economy sucks big time. A lot of people are out of work. A lot of people are unemployed and families are having it really tough. My neighborhood in Laguna Niguel same as you've heard, lots of foreclosure, lots of upside-downs going on. They don't have the money, folks. And if there's anything you can do to stop the curious thing that's happening right now, you better do it because there ain't no way I'm going to pay those kind of water bills. It ain't going to happen. Okay. Thank you.

MCKENNEY: The experience you're describing is definitely not what we would expect to happen. So this is the kind of situation where we definitely want to find out what's going on in your property. It's not what the rate restructuring is intended to do; and in thinking about your physical problem, why the usage seems to go going up, there might be an issue with the meter. So I'm sure we'd like to go out and look at that.

MR. PALMER: I have 11 units budgeted and it went to 30, and I'm one person.

MCKENNEY: We'd be looking for leaks, and if it's not leaks, it may be the meter. But we definitely want to investigate that. It's clearly outside of the bounds of anything we would expect to be going on with the rates right now.

MR. PALMER: I just want to make sure that you all understood that I have really followed the Conservative act and got penalized big time and it was more than just the usage.

MCKENNEY: Next is Dale Tyler, and George Sorrows is on deck.

MR. TYLER: This is the craziest and most intrusive proposal I've ever heard. It fails on multiple points. First it fails on the basis of intrusion into the bedrooms and households in our cities. Who are you to tell us how many people we can have in our houses? With this proposal

we must report on bended knee to you when somebody moves in or out. Are you going to have staff checking on who lives where? Next this fails on the basis of self-enrichment of the District. This proposal should track the actual costs of buying water. Unless your water purchases from MWD are strictly cash, there's an incremental clause for additional water purchases, which should be the only extra cost passed on to the customer. While you may not make profit, you do have reserves and steady increases in salaries and employee benefits. Finally, this fails on the basis of impoverishing existing customers at the hands of new development. Your current customers should not be forced to pay higher rates because of the scarcity charges from MWD driven by new housing. Increased connection fees for new housing to cover the incremental costs for MWD. You could charge per unit if you needed to to cover that extra cost. I can't imagine why the Board and staff have engaged in social engineering on this scale. You should be ashamed of such intrusion in our lives. Go back to the drawing board and find a system that does not injure your customers and constituents. As an additional note, Moulton Niguel has a history of inaccurate billing. Despite level usage patterns, my bills vary every other month. One month it's 40, the next month it's 75. This practice because of the tiered system will enrich you at my expense. You need more hearings to establish the facts, to provide more opportunities for public input, to develop better proposals than the current atrocity. Will you promise to adjust rates monthly to ensure that Moulton Niguel takes in no more money to make this truly revenue neutral? I bet not. It's often said that each person who speaks up represents 1,000 people. Based on the number of people who spoke tonight against this proposal -- and as near as I can tell no one spoke for it and probably no one will -- more than half of your customers want nothing to do with this plan. I urge you to go back to the drawing board, change the implementation date to July of 2012 at the earliest, and let's find

something that will really work for your customers and for Moulton Niguel Water. Thank you.

MCKENNEY: George Sorrow. Did George leave?

VOICE: He's on the O'Reilly Factor.

MCKENNEY: Jane Medling, and Marcia Westropp will be on deck.

MS. MEDLING: I'm a homeowner in Laguna Hills and one of your 167,000 customers for over 20 years. I have four teenage young adult sons who like to stay clean. I strongly oppose the new rate structure. I believe your fees are already ridiculous, and every year we use less water and every month our bill is higher and higher. Go figure. I'd like to bring to your attention one thing that I just happened to notice on the drive down here tonight. I passed three Moulton Niguel water trucks. So it was after hours. I'm sure we were paying these people overtime. Some of the other trucks I saw in the area with them were Kennedy Pipeline trucks. I don't know if it's an outside vendor or contractor that you guys are using for some problem. There's been a lot of digging and we've had to go up to our homes one lane at a time today; but the bottom line I want to share with you is that three particular trucks I saw, I counted six workers, none of them were working. They were all just chatting, and I have a problem with that just so you know, and I sure would like somebody to look into it. I think it's an extreme waste of our rate payers' hard-earned money and I, like I said, would suggest someone to look into this. Bottom line, yes, I object to your proposed tiered rate structure and I notice that in this handout it says that the protest letters must be received in writing prior to the close of the meeting. So should I hand-write a letter since I haven't done one in order for my protest to count?

VOICE: That's what I'm doing.

MS. MEDLING: Is that what we're supposed to do?

GUMERMAN: It's a legal requirement.

MS. MEDLING: I as a homeowner would have liked to have understood that better in advance.

MCKENNEY: Let me stop your clock for a minute, just in case anybody else has the same question. The legal requirement for us to not be able to proceed is if we received written letters before the close of the Hearing from half of our customers. We're clearly not going to get that, so that's not really the question. The question is whether you're providing us information and we're listening to it. So there's no prerequisite that what you're telling us be in writing. If you want to give us written information, if you want to hand-write something before the close of the Hearing, you can, but what you're doing is giving oral testimony which we're considering. So we're not going to get 88,000 letters.

MS. MEDLING: 88,000 of us probably aren't aware of that; and if I had known, I would have perhaps gone around and encouraged some of my neighbors to come. Most of them weren't even aware of the meeting. So you're telling me I probably shouldn't even bother writing a protest letter because you're understanding my concern and protest this way and I'm certainly not going to be able to get 88,000 letters here by quarter of 8:00.

MCKENNEY: You don't have to have it in writing for us to hear it.

MS. MEDLING: How do we get a copy of tonight's minutes or whatever?

MCKENNEY: We normally do a meeting minutes and they're published on our Website.

MS. MEDLING: Okay. Great. Thank you.

VOICE: Can we vote on your website?

VOICE: That's an idea.

MS. MEDLING: So it also says in your summary and discussion back here that -- of course, now I can't find it. Well, anyway, the bottom line is that I don't believe that the people here tonight represent anything but a majority protest, and it really leaves you with no choice at the current time but to not approve the new rate structure. And I would really like to see us all work together because, honestly, in the end we're all here to work together and make this a good community. Thank you.

MCKENNEY: Marcia Westropp is up next, and Behzad Refah is on deck.

MS. WESTROPP: Perhaps I'm the only resident here in favor of the proposal. I know that I live in a dry climate. I know that my water is imported. We have no local water supply. So I take it very seriously to use as little as I can. I just put my own money to get rid of my lawn and plant plants that don't need to be watered and changed my sprinkler heads from my vegetable garden in my back yard. I replaced my toilets a few years back and replaced my shower heads. I've done everything I can to conserve and I feel that finally my water district has made a proposal that is going to recognize and honor my conservation efforts and everything I've done to try to use as little resource as I possibly can. I understand the people here and I respect their concern for their water bills, but we're all in it together and I still -- I don't know where the water police have been in my neighborhood but I still see water running down my street every single week and people are using -- I'm not saying people here but I will tell you people in my neighborhood are over-watering and it's running in the street, and I know we can do better in the conservation department and I think this proposed rate structure is an effort to reward conservation. So I came here to thank you for the proposal, and I hope that this is incorporated into our community. Thank you.

MCKENNEY: Behzad Refah.

MR. REFAH: I just had my comment about the clock which I don't think it was fair to numerous people and it just doesn't make sense somebody here is prepared speaking for him to be stopped. It's just not fair. That's all.

MCKENNEY: Okay. Are there any folks that wanted to testify that didn't testify? Are there other folks that want to testify that didn't submit slips? Are there any slips I didn't get?

VOICE: I would like to.

MCKENNEY: Okay. Can you tell us who you are?

MS. PRESCOTT: Hi. My name is Heidi Prescott. I live in Laguna Hills, actually right next door to the Mayor, Randy, but, you know, I too am concerned about the cost of increases. I live in a single-family home. I do have extensive outdoor plants that need watering but I have followed every rule to the letter. I am one person in the house, and yet my usage seems to be going up and my rates go up right along with it. Some months I use barely nothing and others I use more than what one person should use. So I do think that there needs to be some assurance that the bills are actually going to be accurate because I really -- someone said it earlier, that in the past the bills have not been accurate. People have been very friendly and helpful every time I've called. So that hasn't been an issue, but I also take issue with the -- I think the gentleman explained it -- the tiers. 65 gallons per person per day is not a lot of water when you consider a house 2700 square foot home with a yard. I also want to know would a Variance ever go up or down? So just because you allocate, it was very confusing. I would be allocated 15 BU's but is that per month or does that change every month? I'm looking at getting a roommate. So if I'm allocated 15 BU's this month and I get a roommate, my usage is going to increase and now I'm going to be in those higher tiers. I also have frequent visitors. So there are some things that are -- I don't want to say they're out of my control, but they are variables in my own life and

ultimately with this rate structure will increase my water bill. I recognize the need to conserve. I grew up in Minnesota where water is plentiful. I've lived in Arizona where water is not plentiful. We live in a desert and we have not recognized that as citizens. So I recognize the need to conserve. I really question whether this is the way to either get people to conserve or whether this is really the right rate structure, and I would encourage you to take the input from the citizens you've seen tonight and really process it honestly and if it's not the right thing to do, it's not the right thing to do. That doesn't mean there are not other options, and I would really appreciate if you would look at those other options. Thank you.

VOICE: I know I have spoken but I have an important question. Do you read the meters every month? Because I remember when you did billing only every other month and then when you went to monthly billing, you did that but you don't read the meter every month Do you now read the meter every month?

ROY: They're read every month.

VOICE: By satellite, is that correct?

ROY: No, that's not. We have a variety of different ways that we read, but we do have a fixed system that does work partially by satellite. We have touch-read wanders, about 90 percent automated, but that means we still go out there and verify the reads. They're working through a micro-processing chip.

VOICE: Ten percent is visually seen.

ROY: Ten percent you have to manually read, yes. The others are done with electronic devices and then when a customer has a question, then they pull the lid. The odometer is still in there for a visual read to verify the electronics are working properly.

MCKENNEY: Is there any further testimony?

VOICE: Yes, one question.

MCKENNEY: Say your name.

VOICE: John.

VOICE: John who?

JOHN: Olson, O-l-s-o-n. My question is, first of all, why don't we put this thing on hold and let's have a vote, give these people a chance to vote, the community, and let them decide, or stay with the way it is, and whoever uses too much water, give them the penalties. What you did to me is you reduced my water usage allocation by 50 percent, and you're going to increase my water cost almost 400 percent. Instead of going 125 gallons a day, I'm going down to 65. Now, I've already taken my water usage down 32 percent. I got rid of my lawns. I did all kinds of stuff. You can't squeeze me anymore. So let's put the thing on hold, take a vote, or keep it like this for the next five years and reevaluate it. Thank you.

MCKENNEY: Under our current rate structure we don't have allocations. Is there further testimony?

VOICE: Yes. My name is Ron Langer from Laguna Niguel. I've heard a lot of people talk here tonight. There's 167,000 customers for Moulton Niguel, about 100 of us showed up. I'm sure that if this is the amount that is against this protest or against this proposal, a lot of more people should have come here, rather than just 100 out of 167,000. Secondly, I ran my own numbers on my water bill, and the proposed structure versus my own structure went up about five percent but that included the 16-percent increase. So actually I saw a reduction in my bill from what would have been normal. Another point is that I've heard people say about the 65 gallons. That is 65 gallons for an allocation for eight. So those people that have two people, those people have 65 gallons extra for two people. So for the ones that stay home and have to

take a bath, taking showers is better, but taking a bath 65 gallons, you still have two more people allocated to you that you can use the 65. I know times are tough. We're all feeling it. I'm feeling the pinch as well as everybody else, but I don't think that this proposal as it's been presented is that bad. There's many other water districts that are using it. If you research those water districts, you'll find that their allocations are less than the 65 gallons like I did. This 65 gallons is more friendly, not as bad as the others. And, yeah, we had a great season this year for rain. We might make average, but there's seven years of more drought that we have to make up.

VOICE: All the water is being poured in the delta.

VOICE: The delta has a lot to do because we have to buy our water.

MCKENNEY: We're not going to have a general discussion. Thank you. Is there any further testimony? If not, I'm going to ask staff whether we received a written --

VOICE: I'd like to say something.

MCKENNEY: Okay. Tell us who you are.

VOICE: I'm Michelle Schwartz. We live in Laguna Niguel. We rent a single-family home, which is very expensive in Laguna Niguel. Our landlord is paying the water so really I don't have a vote on it but he could increase our rent because of this. A lot of things have happened in our economy and in our neighborhood. Two years ago there were major cuts to education, class sizes were increased. I was forced to home school my two children because they could not concentrate enough with 35 kids or 33 kids in second grade. There are a lot of people on my street who are out of work, thank God not my family, but having my children home, having the people who are unemployed on my street home during the day, trying to eat out less, preparing meals for breakfast, lunch and dinner, running the dishwasher a lot, we have a hardscape in our

yard except for vegetation plants, decorative plants that are out there. We have a very small lawn in the front. I think you should table this for a few years. I think you should look at what you can cut in your monthly budget like everybody else is having to cut their monthly budget. Unfortunately, can your employees perhaps contribute a little bit more to their retirement fund or to their benefits as is happening in the private sector? I just urge you that a lot of people are unemployed in their home. They're home schooling. There may be mothers who have taken in children doing child care in the home or changing diapers, using a lot of water to wash their hands, things like that. There may be people who were having their parents and grandparents cared for in a facility who now have them at home. There are people who are doubling up families. We've had people from our neighborhood lose their home and move to another state to live with their family members. There's that happening. So there's a lot more people in homes, and I feel that there's a lot of people uneducated in the community who don't speak English who live in apartments around here who may even be getting reduced rates. It may not be affecting them that much. They may be ignorant and they may not be speaking up. The only people who do speak up are the people who have retired or the people who have better education and realize that it is affecting, so.

MCKENNEY: Having heard the testimony, I'm now going to close the Hearing. You can handle the letters. And having closed the Hearing, I'm going to ask staff to tabulate all the written protests that we've received, including all the ones received before the ones received this evening and, is there any necessity to have some sort of report on that?

GUMERMAN: We've received 49 letters. Several were in favor.

MCKENNEY: Okay. I think it's fair to make it a finding, as we know, there's not an issue with protest letters forcing a decision. So with that I'm going to go to agenda item four, which

is for us to consider a resolution on this matter, and this is the time for the Board to have discussion. I'd like to start off by addressing what I thought some of the issues were that were raised. I think it's important for the public to realize that while it's very valuable for you to take your time to come here, we appreciate you doing that to present your views, we're listening to your views, we're going to consider your views. You should also realize that this isn't something that we dreamed up and put on the agenda tonight and just asked for your input. We've spent hundreds, undoubtedly thousands of hours of staff time on this over a period of a year or more developing this proposal and considering it along with a number of other water agencies that are considering this methodology. And so when we talk about it, I don't want you to get the impression that everything that we say when we have our discussions is based just on what you said and we're not considering what you said. You need to realize we've had a lot of information presented to us over a long period of time about this. It's important for us as a Board to realize that there are a couple different alternatives in front of us. We have an existing rate structure now that is a rate structure that includes a fixed rate for water, a commodity rate for water that is in multiple tiers, inclining rate structure in tiers that includes a fixed rate for sewer and it does relate the sewer rate to total water usage, as does pretty much every water utility that also does sewer, and that our existing structure basically tells people that they're going to pay for the water they use and the amount that they pay for the water they use depends on how much they use and not the size of their lot, the number of people that they have, whether they're efficient, whether they've been more efficient in the past or any of those things. If you have a larger lot, you're likely to pay more per unit of water than someone who has a smaller lot, even if you might be more efficient in the way you use water on your larger lot than somebody that's smaller. That's our current rate structure and certainly an alternative that we

could pursue is to keep that rate structure. It doesn't have anything to do with the fact that our costs are going up, that our costs from our wholesaler to buy the water that is our sole source of supply has gone up nearly as much as our rates have gone up in the last few years. Our operational costs have increased notwithstanding the fact that our District has the lowest cost per connection and the lowest number of employees per connection of any water agency that we've been able to find to compare ourselves to, and we have the lowest rates in South County even after three years of rate increases. Notwithstanding all of that, we have a rate structure that says that people will pay for the water they use and how much they pay per unit of water depends on how much they use and not on how much they need or whether they're being efficient. We can keep that. The other alternative is for us to move forward with the proposed Water-Budget Based Rates. However, it is not impossible for us to say that based on what staff has presented to us in all of our previous meetings about how this is going to be implemented, that we're ready to move ahead notwithstanding the protests that we heard tonight. That's possible. We could do that. It's also possible that we could decide tonight that we want to move ahead with the rate structure but there are specific technical issues about how quantification works and how adjustments would be made that we want to address beforehand. It's possible that we could say that we want to move ahead with or without other adjustments on a time schedule. So those are all possibilities for us to act upon.

I would like to note that this is not a proposal that has been pushed on us by staff; that staff has proposed it to us and we as a Board have talked about this and are generally in favor of at least investigating it. We did not make any prejudgment about whether to adopt it or not, but we have certainly not -- my view -- felt that this was being tossed upon by staff; and that at least from my perspective it's very important for us to see this proposed rate restructuring

separate from the issue of rate increases that we've been talking about over the last three years and that we recognize this as an opportunity to change our rate structure to one wherein the amount that people pay per unit of water depends on how efficient they are and that if you have a greater need for water because you have more people living in your house than our files would suggest or if you have guests coming in for a period of time or if you have a bigger lot or for whatever reason that you need more water, that you'll be able to get the water you need at a low rate if you're efficient and at the same time you can have all the water you want; but if you use more than at the efficient rate, it will affect the unit price you pay. The rate structure that's been proposed to us still includes many of the same features of the rate structure we have now in that it has fixed costs for water and sewer and unit costs for water and sewer. The real difference is the unit cost of water we're suggesting -- staff is suggesting. What we're considering tonight is the unit cost of water will be based on whether or not you're efficient and not just on how much you use without regard to how big your need is. It's been suggested tonight that this is a complex system. Certainly there are technical complexities in the way the budgets are established, but in terms of it being a unit cost with multiple tiers where the unit cost varies with the tiers is the same structure we have now. So that's not any more complex than what we have now. It's been suggested to us this evening that this is a very intrusive system; that it's domineering or demanding control, and I would suggest the only reason we've been interested in this is that it's exactly the opposite of that. It allows people to use the water they want. They are completely in control through their own efficiency of whether they pay at a unit cost or whether they go to a higher unit cost; but we don't tell people how much they can or can't use or what they can use the water for as opposed to the system that we've had in place for the last two years where we've had to tell people they have to water on certain days and try to penalize

them. The structure of the thing proposed is much less intrusive than what we've been using now. Certainly the hope is that the Budget-Based Rate Structure will result in conservation, and the staff has presented to us in great detail before how the tier one and tier two budgets are designed along with the fixed rates that are associated with the accounts to recover our costs so that if we succeed, as we hope to succeed, and keep everyone within or close to a budget so that we don't waste water, that it will not result in us needing to raise rates because of our own success. Part of the whole point of this program is to reward efficiency and not have to penalize people for being efficient. It is true that our rates have been going up. Rates have been going up because our costs have been going up external to the District. We have taken a hard look and continue to take a hard look at our internal costs. I mentioned I think that we believe our costs and our efficiency are very competitive with our neighbors. A comment was made that this is not the time for business as usual. I would suggest that two years ago in this District business as usual was that if we had an interruption in imported water supply, we had two to two and a half days of local storage and we would have been out of water. One of the things we're investing money in right now is local storage projects, local water development projects, all in collaboration with our neighboring agencies so that they're efficient and with a goal toward reaching a 30-day local supply for the liability, and that's the kind of thing that we should be spending money on. That's the sort of internal thing that we're doing that's driving our costs slightly but our biggest cost increases are simply buying water. In terms of how efficient we've tried to be in this District, we've proved that we have not seen a mission in the District to finance gray water systems or rain water harvesting. We have had water efficient technology rebate programs in the past. We do think the approach that we've taken it's the individual's responsibility to be efficient and their choice how to do that. However, on a system-

wide scale one of the greatest things we've done to be efficient in this District is that even though we don't have any other local source supply, we have to buy imported water, we meet 25 percent or more of our local demand with recycled water, which is higher than any other district I know of. That's a District investment over a long period of time that has gotten us to that point and we're members of the San Juan Basin Authority so that in the future we have an opportunity to develop groundwater out of the San Juan Basin, though we don't have the opportunity physically right now. So those are some of the things that were raised tonight that I think need to be addressed at the beginning. I think this is a proposal that has a lot of merit and I'd like to hear what the other Board Members have to say about it in light of the discussion tonight and in light of all of our discussion.

FIORE: I have a procedural question I'd like to ask the council. We are having a Proposition 218 Hearing and procedurally I'd kind of like to know what our options are with respect to the alternative decisions that Mr. McKenney outlined and what other options there might be and still retain the use of the existing 218 because it was expensive and time-consuming and we have people who have come here this evening. For example, can it be put off a month or a year for a decision? What are the options?

GIANNONE: Well, the Hearing is closed at this point, and the Board can make a decision and take action or as the President outlined, we can defer action as well. You've had the Hearing on the Budget-Based structure. You could in the future reduce those rates. You could go lower, for example, than what are outlined in the Hearing notice. But you have covered that specific proposal, and so you've got time to reconsider or look at other options and that 218 notice would still be valid for the structure that's been proposed or rates that are lower.

KURTZ: How much time do we have?

GIANNONE: I think that the 218 notice covers the proposal that was addressed in the 218 notice. So you could defer it for any period of time that you chose to do that.

LIZOTTE: You're talking about the one that had the three 16-percent increases or are you talking About this --

GIANNONE: I was just addressing a question on this current proposal.

MCKENNEY: Other thoughts from Board Members?

FIORE: I would like to say that I've been extraordinarily impressed with the turnout this evening. I think the concern that many of you have expressed that this was a done deal is not true. I think Mr. Lizotte vocalized that during our discussion because I think there are several of us on the Board here who are weighing the pros and cons, but I would like to express my appreciation for those of you who have come here this evening. You've had excellent comments. Obviously, many of you have researched this issue thoroughly and have come up with some very, very interesting observations. I have some concern with regard to factual accuracy, that some of the things that we have stated, because many of you have indicated that those are factually incorrect. So part of my interest in possibly deferring a discussion on this is to verify the accuracy of some of the factual information that we presented to our constituents. I don't know about the gentleman who said one speaker equals 1,000 people. I don't know if that's accurate. I haven't heard that one, but I certainly would agree that there are far more of you that aren't here this evening who would probably express the same sentiments if you were here. So I heard you. I think we've all heard you and this will be an important decision for us to make. Those are my thoughts. I'm still not sure where I am on the issue, but I am concerned about the factual accuracy of the information that we have provided in our 218 notice and some of the statements that were sent off. Mr. Hulsy I think very rightly outlined what those issues

are. As Mr. Hulsy indicated, we are classmates from law school. However, we have not seen each other for a number of years. We don't have any particular social or professional relationship. This is the first time I think I've seen you, Bill, for a number of years. Nice to see you by the way.

MR. HULSY: Thank you.

KURTZ: Thanks for clarifying. I'm calmer now than I was.

MCKENNEY: Mr. Froelich.

FROELICH: Yes. It's been extremely informative this evening to hear comments from the residents on the rate structure and certainly a lot of good points were brought up, and I think that it is going to take some time to work our way through them and understand them and maybe try and sort out. Sometimes we develop a perception on what revenue neutral is and we certainly got a different perspective on that this evening. That's always been personally one of my perspectives on this new rate structure. Conceptually I see merit in that type of rate structure but I also see its shortcomings. Some people were sort of very graphic in how that might affect their personal life and how intrusive it might be, and I just remodeled my master bathroom and put in a soaker tub and probably should have kept my old five-foot 30-inch-wide tub. I wasn't the only one making the decision on what to do and also I've always had a concern with this so-called penalty money and we talked about, that it's to be used to enhance conservation in our area. It would be a separate fund. It would not be a slush fund. I've heard that term. But it would be something that would be monitored and budgeted and accounted for, and I certainly would like to get more information on how that might work. Also, there was a comment about maybe should it be rebated to the residents and go with that, but the point being I think there's a lot of things in my mind that require further discussion.

MCKENNEY: I'd like to comment on the penalty tier revenue. We had a lot of discussion on whether that's what it should be called. We have a rate log that's been developed so that we can look at all our customers and what we project the use would be and what our costs are projected to be looking at our ten-year cash flow in the future and establishing our fixed charges and using these tiers; and the amounts of the tiers are set, both the budgets and the amounts are set so that with our fixed costs and tier one and tier two we should be able to cover our expected costs. So that if everybody were to stay within budget, we would make the money that we need to pay the costs that we project, and we would not be in a situation where if we succeeded wildly, we'd have to come back and say, "Now we're running in the red and we have to raise your rates because you did so well". So we're intending not to do that. Reality would be that there are going to be people that are in tiers three, four and five and so we'll get that revenue and we have to decide what to do with that. And the intent clearly -- you're right -- it's not supposed to be a slush fund but there's a question of whether it goes to benefit the people that were paying it because they were using more water and we do something for them, or do we do something for the people that were efficient and, of course, the answer is we don't do either of those. We do what's best for the District with the money, and what's best for the District is to use that money to drive us toward the result of Budget-Based rates we're supposed to achieve, which is to get those people closer to being in budget if they want to. So the idea is to come up with something that would use the money to get the people that are way above budget down closer to budget. If we were to do something else with it and take it from these people because they want to use more water so they pay more and then just rebate it or refund it to other people who didn't, then it really would be a penalty. We'd be robbing these people to pay these people; whereas if we use it to help the people that are paying those higher rates get down to lower

rates, then it has a nexus for what we collect money for, which is what we should be doing as a public agency. Which helps all of us because ultimately, we all need to conserve the supply. We're all in it together.

MCKENNEY: Any other comments from the Board?

PROBOLSKY: I'm very, very happy to see all of you guys here and very impressed with a lot of the research you've done and I've also done a lot of research and put hundreds of hours into understanding this process or I wouldn't have been part of bringing this process here to you guys. And I think we failed miserably in communicating because I think there are really good answers that most of you will understand and trust and believe in if we could take the time and I want to take the time to sit down and actually answer each of those questions and deal with the issues that you've brought up because it actually does make sense. But I'm not prepared to vote for this until most of you have had a chance to go through that process. But I can't do that alone. I need you guys to be committed to that process as well. We have staff that's committed to that process and I'd like to sit down with each of you and go through those lists of questions because I think there's a lot of misconception, misinformation but I'm not prepared to vote in favor of this. Is there anyone in this room that believes that it's possible that with this new rate structure your bill will either stay the same within a percent or go down? Is there anyone?

VOICE: It's mathematically impossible given the data.

MCKENNEY: I don't want to invite a discussion back and forth.

VOICE: All I can say is your data that you have presented makes it mathematically impossible. The data that you presented to us, you might be right, okay, but if you are right, you didn't do a good job of showing what it was.

VOICE: The data that we have shows what the costs per tier would be but it's not easy to see from the information which was presented which people because they had particularly large lots, for example, or have high demand that would be recognized if the budget would end up meeting all of their uses within a lower tier than they're in now because they end up paying more per unit just because they have a big demand. You can't see that from the information presented.

PROBOLSKY: Correct. I agree with that.

VOICE: May I make an observation?

MCKENNEY: No. The Hearing is closed for discussion at this point. It doesn't mean that there won't be more discussion about this but for right now we're having Board discussion.

PROBOLSKY: Back to that. I can't accomplish what I'd like to accomplish here tonight. We don't have enough hours and I can't do it on my own. I hope these folks here will take heart and get his e-mail address and we'll contact the District between now and we'll postpone a vote on this or afterwards. But I truly believe that there's a lot of misunderstanding and if we take just the snippets that you heard and walked away, I think you'd be doing yourself and your neighbors and everyone you would talk to a disservice and I'd really like you to have the facts and know that a lot of planning went into this. So that's kind of where I am on this at this point. Thank you.

LIZOTTE: Having heard what Brian just said, is there anybody here in the audience that would be willing to sit on our Citizens' Advisory Committee that's pretty well up to date on this proposal? Maybe there's more participation if you could let Chuck know or Bob, our General Manager, that you want to sit in to understand it better. You can spread the word out because, obviously, our Citizen's Advisory Committee didn't do a good job of getting the word out and that was one of the

Intents of having this Committee. So we need more help.

MCKENNEY: That's a statement of fact, I don't want to impune on our system. We didn't charge them with being responsible.

FIORE: If I may make a comment, too. I think Brian really hit the nail on the head. I was going to use the word outreach communication but we just didn't do enough preliminary outreach with our customer base. We didn't have workshops. We didn't send out enough written material. I don't know where we missed the boat, but we certainly missed the boat in communicating adequately enough so that at least you would all be in agreement on what the facts are, and then have a debate as to what your approach would be. But I think right now we don't even have an agreement on what the facts are. I don't think we have an agreement among the Board because I'm not in agreement with some of the facts because I have questions about them, and clearly you as our customer base don't either. I'm not prepared to vote to approve this evening. I would be open to the idea of postponing a vote on this so we can maintain the proper procedural process to a later date; in the meantime flush out some of this information.

MCKENNEY: We're on a different agenda item now from the Hearing. The Hearing has been accomplished. We can agendize further discussion on this however we want to do that. As long as we don't consider a proposal that increases the unit prices, we're still covered procedurally. What I'd like to do is it seems to be pretty clear that what we want to do tonight is give staff some direction on what we need to do and what we want them to come back to us with. So I'm hearing evaluating the factual accuracy of the information that was presented, reviewing the accuracy of the area measurements. This has been something that we've worked on really hard for the last year and we've done it several different ways because I know we've been making adjustments. You can probably give us an update on the state of the art that we've

reached for the area measurements. The accuracy of our projected impacts. We've gone through, run through our model looking at all of our existing customers to see who we think is going to be affected; and in light of some of the comments tonight, we should certainly go back and revisit that and verify that we think we're predicting accurately the impact on our customers and reviewing the overall revenue generation impact. If we've designed the system so that if we achieve a level of efficiency that we hope to achieve, we will meet our costs and it's not intended to be a new revenue generation. We addressed that already through our rating prices. But I think that in light of the discussion tonight, we would want to review that and make sure that the model shows us that's accurate, and then staff recommendations on additional outreach that we might do. When you say workshops, I'm assuming that you mean workshops for staff to have with the community and certainly directors could participate in that to have discussion with them to provide education about how the system would work, not Board workshops.

FIORE: No, I don't think Board -- for example, this PowerPoint presentation, I was anticipating we were going to use it, I'm a little disappointed that we didn't because I think it would have been useful for our customers who have been here tonight to see it. I think it might have put a lot of perspective into the proposal.

MCKENNEY: That's my fault. I urged staff to be brief so that we could spend more time hearing testimony.

FIORE: We've had more than two hour-meetings before. So I'm not concerned about that.

MCKENNEY: We are now.

FIORE: I'm thinking in terms of actually inviting these same people, the same people who are here tonight, inviting them down to a workshop that's prepared by our management team and

present this and have an interaction of give and take, an interaction of questions and answers.

That's what we did when we presented this to the Citizens' Advisory Committee. They had a lot of questions; we had a lot of answers. We haven't had a lot of answers to the questions proposed tonight, and that concerns me as well.

VOICE: Can you put it on your website, the presentation?

MCKENNEY: The presentation?

FIORE: Yes.

MCKENNEY: Sure. Mr. Kurtz.

KURTZ: I appreciate everybody's input and I agree that we need to have you prepare a workshop or workshops and explain a little bit more in detail what this is going to do.

This is a budget-based. This is your budget. It's a budget for you, and I am proposing that as far as a timeline, a workshop maybe 60 days from now or 90 days if you need more time.

MCKENNEY: Can we ask staff to provide us recommendations as to additional outreach? Let's look at the time frame for that and see if we can do it within two months or three months.

FROELICH: Another item you may want to add to your list is, I think we should go through all these comments and summarize them and be prepared to discuss the comments.

MCKENNEY: Discuss them like read a transcript of the oral comments and discuss them at a Board Meeting?

FROELICH: Not so much a transcript but I kept notes on some of the key issues that were brought up, but there's many of them I'd like to have some answers to.

MCKENNEY: That's what I'm trying to get to now is there were many comments that were received tonight that I know were in earnest and I'm quite confident were factually incorrect, which is not a criticism; it's just the way it is. We've been looking at this for a year. We've had a lot of

luxury to ask staff questions and I think we understand some of the stuff better than somebody would be expected to understand it who got the mailer and it's not their job, but I think part of what we should do is weed some of that out and focus on the things that were issues raised tonight that we think really call into question the factual accuracy of what we've been presented or where we need to revisit something where there was an idea raised or we need to reconsider something. Let's focus on that. And with regard to the things that were raised that are just misunderstandings, let's address that through additional outreach.

PROBOLSKY: I want to also make sure that -- this is somewhat tangential, although it seems very primary for most of you, is we meet in this Board Room at least usually four times a month and with specific agendas that are posted that would I encourage you to please come. Nobody comes to any of those meetings and we discuss a lot of the issues not related to this rate structure but related to the operation of the District that would answer a lot of the questions you have related to reserves, pensions, our ability to change some of those things, the supply of water from our suppliers, from the State of California, the fact that there is a lot of water in Northern California but we can't get it, you know. A lot of great issues were brought up, and I'd love for you all to get involved because for a lot of these issues without state legislation none of it can change. So there's a limited set of things that we have control over here, and I think we're doing a very good job of handling those things that we can control, and I invite you in and I invite you to sit down and look at our ten-year cash flow projections and our financials and sit in those meetings and hear what goes on. There's nothing here that we don't want to share. There's nothing that I don't want to share.

KURTZ: "We" is a good word.

PROBOLSKY: So, you know, Director Lizotte responded to one of the questions saying, well,

that's not the whole picture on the pensions. I don't know what exact number was brought up but there is a pension issue, and our hands are tied. This particular Board, things that were put in place years ago and there are state laws that hold us up. So I encourage you to continue your involvement and continue learning what we learn every day and every month in being part of this because that just helps everybody.

COLTON: I've only been on the Board since November and when I came to the ring -- and when I came to the Board, they were engrossed in this Water Based-Budget. I just couldn't get it. I listened to everything. I read everything. It just didn't make sense to me until we had a meeting. We had a one-on-one meeting in an office with a fellow from UC Davis that has all the information on all the climate and we really got down into it, and when you finally see the whole picture, it is truly a piece of work. It's really, really good, but it's very, very difficult to understand. The bottom line is that in June there's going to be a 16-percent increase in your water, period. That happened a year and a half ago or two years ago. I wasn't involved in it. I didn't vote for it, but it's there. If we're going to live with that, June 1 all our water is going up again. It's unbelievable. But this new structure if you -- you will be given enough water to have the greenest grass in your neighborhood and to take baths every day, and you're not going to be abusive to the water system. You are going to use the amount of water that you need.

The people that -- people that we're concerned with or the people that are going to be paying the money and the higher rates, they're the ones that leave their sprinklers on when it's raining and, boom, they pop off and go off automatically and they're watering along on top of the rain. It's wasteful. There was a lady here who says her whole neighborhood was wasteful. She sees water running down the curb. I see it in my neighborhood, too. If you people became proactive on how the water -- how you use your water, you're going to be so happy you live in

the Moulton Niguel Water District because you're going to be paying the least amount of water that anybody else around in Orange County is going to be paying. And I'm really for it, but I think that this is not the time and I think we need more education. I think we need to have -- we need to educate the people better. A PowerPoint on the website or maybe some Workshops. I'm all for it.

LIZOTTE: I think what I learned or heard most here is look at the situation on water.

Maybe there has to be a little restraint here on the Board on how we're approving things in think too fast a manner. I was thoroughly against this increase of 16 percent in 2009, 2010, and 2011, and then we hit you with this Water-Budget Based Rate Structure.

VOICE: Can you talk a little bit louder? We can't hear you back here.

LIZOTTE: I don't preach to them but I keep saying, "Hey, there are people out there hurting" and, boy, they're really hurting tonight, and that's --

KURTZ: He does preach sometimes.

LIZOTTE: Sometimes I preach. The former General Manager that used to sit over there, I was talking one day and he brings this doll out and he hits it and he says, "Larry, you're killing me". My first name is Larry. But, anyway, I really heard the fact and I think the Board recognizes there's a lot of people hurting and maybe we have to restrain ourselves a little bit not to be as aggressive as we have with some of these rate increases. For instance, the Metropolitan Water District says we need a seven-day supply. We're spending 50 million dollars right now of your money and we're going to keep a 23-day supply. Some of our fellow agencies next to us may not have that but what are we going to do when we have that 23-day supply? We're going to share with them. We're going to pay for it. Water is already going down the river. We already made that commitment and this is a good thing. We have a lofty goal. I think in the

future we just have to have a little more restraint and consider that economic times are tough now. Like I say, I'm on Social Security. I didn't get any raise in the last two years. Our employees did, though. So thank you.

KURTZ: Just to let you know, most of you -- I'm sure you know this -- we have no groundwater. We get most of ours from the Colorado River and seven states, five Indian tribes in two counties, and we get from the north whatever the Federal government lets us have based on certain fishing restrictions that they've had. So the costs for water are going up, and it's just pure and simple. It is what it is. And the demands on it we have to react. And so I think -- the workshops, whatever we develop in the next 60 days, 90 days, and your participation is going to be very helpful to everybody.

MCKENNEY: For staff direction, the things that we'd like you to come back and either verify or provide more information on, the other one that I didn't have on my list before was this issue of how ET directs the system, what the timing of that is, and how frequently there are updates and whether we're expecting customers to be able to predict based on --

VOICE: And location.

MCKENNEY: Since there are technical details that I know staff has been immersed in and I don't have a clear understanding of it, that's one of the things that we'd like to hear about. I would like to -- it's clear from listening to the comments that we're not approving anything tonight based on the discussion of the Board. However, I would like to give staff this direction. I'd like for us to put this on the next available agenda of probably our Engineering and Operations Board next meeting so we can address some of the issues that I've included here. I would like to get a time-frame for doing the additional outreach and any additional work we need to do. I remain very positive about moving forward with this rate structure concept in a relatively short timeframe

after we've addressed the comments that we talked about tonight. I'm not supportive of saying we're going to put it on hold for a year or two years or anything like that. We need to resolve the issues and if the resolution of the issues in three months is that we keep our 20th century rate structure, then we should decide to do that and not spend more staff time on it. But I think this is the wave of the future. In illustration of that I would note, just for perspective, two things. One is we've got the lowest water rates in the county I think, certainly in South County.

LIZOTTE: Not true.

MCKENNEY: The only other water district in the county that has a lower unit cost than we do is the tier one rate at Irvine Ranch Water District, and Irvine Ranch Water District pioneered the budget rate system and it's been operating for nearly 20 years. And when I went on the Internet for ten minutes and Googled "Water Budget Based Rates" and saw the other agencies that are doing this, just the first thing that showed up on Google I saw that in addition to Irvine Ranch Water District, this rate structure has been adopted by El Toro Water District, Laguna Beach County Water District, the City of San Juan Capistrano and the City of Newport Beach. Those are in Orange County. Other places in California are Las Virgenes Water District, Monte Vista Water District, Rancho California Water District, Eastern Municipal Water District, Elsinore Valley Municipal Water District, Coachella Valley Water District, Palmdale Water District, Quartzville Water District and Redland City, California. And outside of California the cities of Castlerock and Boulder in Colorado and the Southern Nevada Water Authority are all on this rate structure and that's just what I found in the first two or three pages of Google. So this is not a new concept. This is the wave of the future. We spent a lot of time talking About this. I continue to believe that it has merits. I think that we need to give staff direction to answer the questions that have been raised tonight and bring it back to us within -- come

back to us in the next month so we can decide if we're on a two or three month time frame of resolving this and then decide if we're going to do it or not.

PROBOLSKY: I don't want to go through the whole thing, but can we have Chuck put the one slide up that shows the comparable rates.

ROY: What it does, it does both. Fixed rates are higher in certain situations but the commodities are lower.

VOICE: And this is going to be put up on the website?

MCKENNEY: Yes. We'll put the slide show up. That's the actual costs per billing unit.

VOICE: Effective as we speak or effective as of June 1?

ROY: That would be effective as of July 1 if the rate structure went through.

MCKENNEY: Bottom line is the staff proposals for July. The other ones are what's there now. The ones above those are current rates in the other water districts.

ROY: That's correct.

VOICE: Don't anybody move.

VOICE: Move to Santa Margarita.

VOICE: It's not true. I got the Santa Margarita rates with me and I'll debate that until you're blue in the face, and I got all the statistics here to prove it.

MCKENNEY: I'm sure that we can work with staff with you. I personally am willing to go outside with anybody about Santa Margarita Water District rates. I know we're lower than they are.

VOICE: And we applaud you guys for being lower. We thank you for the work that you have done. Don't follow the herd.

MCKENNEY: We are not following the herd on their revenue. We're deciding if we want to use the rate structure. We're still going to have -- the way that we operate the District, we control our

costs, we do a better job of that than anybody else in South County. We're going to continue doing that. The rate structure is just about how the costs are distributed and we want to distribute the costs more to people who are wasteful than people who are doing the job of conserving. That's the whole thing about the rate structure.

VOICE: It's not San Francisco. This is Orange County. If we wanted to live in a socialist economy, we'd move to San Francisco.

MCKENNEY: We're not in open discussion about this at this point but you're free to talk to staff about it. You're free to talk to any of us individually about it and you're free to come to our future meetings. Any other Board comments? My recap of staff directions is evaluate the factual accuracy of the information that's been presented, review the area measurements, make sure that's being done well and accurately, the projection of impacts on ratepayers, the model revenue generation overall, the additional outreach we recommend you do, the use of ET. Anything else that we recommend? Excuse me. We're still trying to finish the Board's business here. You're welcome to go outside if you want to talk, and Board Members will be around if you want to catch us after.

FIORE: Part of your checklist is the verification of the accuracy of our way of calculating square footage. I'm just raising a question. I'm not asking you to do this but it might be useful to take a sampling throughout the District and actually go out there and physically measure some of these properties and see how accurate your in-house calculations are.

ROY: We're currently doing that. We started off with using an outside contractor's information. We didn't like the results of that so we took it in house, and we're measuring every single parcel within the District and we're doing random samplings to verify our numbers. So there are still some places that maybe have some old data that was provided to us but we are

correcting that.

MCKENNEY: And I'll add one other thing to the list for you to provide input on and that has to do with the roll-out process. I know that our proposal was that we would -- if we implemented the rate structure, that there would be a concerted effort over a period of six months to make sure we were accurately reaching out to find out if there were problems. I'd like to get more information about what the proposal is on that and whether staff would recommend in light of the discussion we've had tonight an additional pre-rollout, like shadow billing type of process. I think we've discussed that in the past, but I want further recommendations how to do that work, a shadow bill for every connection in the District to see how it looked that would be very interesting.

ROY: We're prepared to start that as of Tuesday of next week.

MCKENNEY: Okay. I'm looking for your recommendations on that. Any other additions for the staff direction?

LIZOTTE: Just a point of information. I made a point today to call the General Manager of South Coast Water District and I got a hold of the Assistant General Manager of Santa Margarita Water District. The General Manager of South Coast Water District was interested in this Budget-Based Rate program, but indicated to me that he had always felt it was a little too expensive to implement it and he was concerned with the cost to maintain it based on all the people's questions that might come about once you're in the system. So then he wants to see what we're going to do.

VOICE: That's the problem, the tumble-down effect.

LIZOTTE: My second conversation was I spoke to the General Manager of Santa Margarita Water District prior to this and he said he looked at the system and they just weren't interested and it was too complicated he said. When I spoke to the Assistant General Manager today he

verified the same thing, and he said one good thing to me. He said, "You know, we followed Moulton Niguel's conservation efforts the last five to six months. We didn't have any water police out there. We just got the word out". I don't know how they got the word out, if it was better than ours. We try to do as best a job we could, but he said he noticed that they achieved almost the same savings in water conservation as we did. They missed it by one percent.

MCKENNEY: That makes perfect sense to me because we've been trying to push out information about conservation and we spent a lot of money doing that as opposed to doing it through pricing. So what we've seen this winter is that the conservation that's been achieved by everybody has been driven by a wet December and a mild winter. Most of our water use is outdoors and it's been a mild winter and people aren't using water. So everybody is seeing conservation.

LIZOTTE: That was my point. Since we started this conservation, they just elected not to go the police route. They felt it was too intrusive. And the other thing that the General Manager of South Coast County Water District said was he didn't -- I think he understood it, but he said maybe the tiers should be a little larger because he lives in our District. He's very interested in what this --

VOICE: Someone suggested more of them.

FIORE: One last comment, Mr. Chairman, if I may. When we have Board Meetings to discuss this issue, I'd like to see us communicate to our customer base that we're having these discussions other than just posting a notice of our Board Meeting. Maybe on the website or in our newsletter so that there's some ability to know when we're actually going to meet to discuss the issues.

LIZOTTE: I think we have it in our newsletter. Hopefully everybody reads it.

FIORE: We're talking beyond this, yes. But if we meet at the Engineering Committee Meeting and we decide we're going to talk about this issue, I'd like to see some kind of a greater publication on our website than just the notice of the meeting which gets posted.

MCKENNEY: All right, any other comments?

LIZOTTE: You got one gentleman over here.

VOICE: If you're going to publicize it more, we need a bigger room.

MCKENNEY: That's part of the recommendation for staff that we're going to do additional community workshops.

VOICE: Or Aliso Viejo High School gymnasium.

MCKENNEY: We cannot -- because this is a Special Meeting, we can't add a late item even if we hand any, so we have a motion to adjourn. Any opposed? If not, we're adjourned. Thank you very much.

#### ADJOURNMENT

Thereafter, the Special Meeting of the Board of Directors of the Moulton Niguel Water District was adjourned at 8:25 p.m.

Respectfully submitted,

Leslie Gray  
Recording Secretary