

The City of Bellflower

Families. Businesses. Futures.

16600 Civic Center Drive, Bellflower, CA 90706

Tel 562.804.1424 Fax 562.925.8660 www.bellflower.org



April 28, 2009

AN OPEN LETTER TO MUNICIPAL WATER SYSTEM CUSTOMERS:

During the past several months, both as part of the recently concluded City Council election and in the course of day-to-day business, members of our community have expressed a great deal of interest in the City's Municipal Water System. Council Members have been asked a lot of questions related to its acquisition, funding, rate structure and planned improvements. This letter attempts to address some of the most frequently asked questions.

The City of Bellflower is served by four water system providers: Bellflower Somerset Mutual Water Company, Park Water Company, Bellflower Home Gardens Water Company, and the City's Municipal Water System. The Municipal Water System, formerly the Peerless Water Company, serves about 10% of the City's residents.

Beginning in late 1999, the owners of the Peerless Water Company attempted to merge their company with a subsidiary of American States Water Company. Concerned that the proposed merger would likely lead to the sell-off of Peerless' water rights, loss of local control, continued deferred maintenance, little capital reinvestment, and higher water rates, Peerless customers asked the City to block the merger. The City's efforts in concert with Peerless customers led to the November 2001 decision of the California Public Utilities Commission to stop the merger.

Their merger thwarted, Peerless' owners attempted to sell their company to other local water providers. Given the poor condition of the system and the high asking price, there were no takers. At that point the City, recognizing the public interest would be best served if the City acquired and rebuilt the system, decided to take an active role. This decision ultimately led to the City's acquisition of Peerless' assets through the threat of an eminent domain condemnation in January 2007 at a cost of \$5.8 million.

The \$5.8 million purchase price was advanced from the City's General Fund reserves with the understanding that the City would issue Certificates of Participation (a financial instrument similar to a municipal bond), the proceeds from which would be used to reimburse the General Fund and provide matching funds for certain capital improvements. Public property, City Hall and Thompson Park, was pledged as collateral for the Certificates; a common practice with most public agencies.

There have been some misstatements made to the effect that individual private property owners would have their properties "liened" or would otherwise be financially responsible if the City were to default on the Certificates of Participation. This is untrue. The responsibility rests solely on the City.

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Assuming the average customer uses 3,600 cubic feet of water per bimonthly billing period, in January 2007 the average Peerless customer paid \$88.36 per bimonthly billing period. The rates were raised in June 2007 and again in June 2008. Presently the average Municipal Water System customer pays \$148.53 per bimonthly billing period. The total increase, while significant, amounts to roughly \$1 per day. The ultimate cost is roughly one-half penny for every gallon of water used by the consumer.

There are four factors that have driven the increased rates:

1. **Poor Condition of System.** The City acquired the system with the knowledge that it was in poor condition. Once we took possession, we found that conditions were worse than expected. 12 of the 16 water wells had failed, and had been abandoned without being properly closed. The four active wells were old, shallow, and at-risk of contamination. Most of the system's approximately 45,000 linear feet of meter mains, along with associated hydrants, are old, badly corroded, undersized, and in some cases in urgent need of replacement. The Water System needed funds to make the most urgently needed repairs and to bring the system into minimum compliance with State and federal regulations.

The estimated cost to fully rebuild the system is more than \$20 million, spread over the next 20-25 years. Obviously this exceeds the resources of both the City and our Water System's customers. We have been aggressively pursuing federal funding. To date we have obtained \$1,234,300, and have requests for funding from the American Recovery and Reinvestment Act (the 2009 "stimulus package") of more than \$20 million.

2. **Increasing Cost of Imported Water.** The limited pumping capacity of the System's four wells, and the physical separation of the seven service areas within the system, means that the System cannot pump all of its own water rights, and must import water from other providers at a substantially higher cost than using our own groundwater. The primary source for imported water, the Metropolitan Water District of Southern California (MWD), raised its rates by 15% in January 2009 and will raise them again by 20% in January 2010. Future rate increases are expected.
3. **Debt Payment.** The Municipal Water System is presently making interest only payments on the \$8.2 million in Certificates of Participation sold to finance the acquisition of and improvements to the Water System. In October 2011, we will begin making principal payments.
4. **Protection of City Taxpayers from Cost of Water System.** In acquiring the Water System, the City Council assured the City's taxpayers that they would not allow the Water System to become a drain on the City's already limited resources. The Council is firm in this commitment, although the City has advanced substantial operating funds to the Water System and has not recouped the cost of City staff used in system oversight and management.

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Since acquiring the System the City has made substantial improvements:

- **Well Decommissioning** – proper closure of 12 wells at 9 locations, along with the demolition of related expansion tanks, pump houses, and related structures; completed in December 2008 at a cost of \$350,000.
- **Replacement of Service Connections** – replacement of underground pipes and valves connecting the water main to a customer's water meter. Replacement generally results in improved water pressure, and may improve discoloration, odor or dissolved oxygen problems. This has been an ongoing project since February 2007. To date 265 connections have been replaced at a cost of \$225,000.
- **Replacement of Water Meters** – replacement of nearly 1,800 water meters with new remote-read meters, including 340 meters in customers' rear yards. This will ensure accurate metering of water actually used, eliminate any need for MWS meter readers to enter private property to read the meters, end the need for coordination with customers to enter gated rear yards, and save an estimated 672 working hours per year. This has been an ongoing project since February 2007. To date 60 meters have been replaced at a cost of \$6,000.
- **Water Master Plan** – the creation of a Water Master Plan is an essential first step in rebuilding the system and serves as a road map identifying and prioritizing capital projects, with descriptions and cost estimates.
- **Carfax/Nava Interconnect** – this interconnection provides an emergency back-up for adjacent customers via connection to Bellflower Somerset Mutual Water Company. Completed in June 2007 at a cost of \$18,000.
- **Lakewood/Walnut Interconnect** – this interconnection provides an emergency back-up for neighboring customers (including fire protection) where no such back up previously existed (in the past, if service was interrupted from Wells 2 and 3, a fire hose was jury-rigged across Walnut to connect to another provider). Completed in June 2008 at a cost of \$50,000.
- **Emergent Repairs to Well No. 8** – in September 2008 the expansion tank at Well No. 8 failed resulting in the shutdown of the well and the use of imported water to serve the customers in the area east of Bellflower High School. It was subsequently determined to be un-repairable. After an unsuccessful attempt to find a surplus tank, a new tank was installed in January at a cost of \$30,000.

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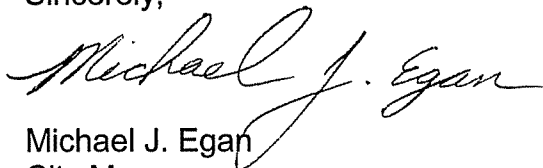
Capital projects in progress or in planning include:

- **Emergent Repairs to Well No. 17** – in March 2008 the pumping rate at Well No. 17 dropped from 350 GPM to 120 GPM, resulting in severe strain on the pump motor. The well was taken off-line for inspection and repair. It was determined that the bottom portion of the well casing had collapsed, but that the well could continue to produce from a shallower portion of the well casing. The well was placed back into service in February 2009 with a pumping capacity of 190 GPM. Subsequently the well's output was found to contain silt, and the well was taken offline for further investigation. At this time its ultimate fate is unclear. Cost to date is \$50,000.
- **Mapledale/Van Ruiten Interconnect** – consists of 2,500 feet of transmission pipeline connecting that service area to Bellflower Somerset Mutual Water Company and thereby avoiding 50% higher Park Water Company rates for normal usage. Construction is expected to begin in September 2009 and be completed in October at a cost of \$444,000.
- **High Capacity Well** – a high capacity well would enable 100% use of MWS and City water rights, resulting in significant savings. Excess capacity could pump other's water rights, charging a fee for this service. Capacity of this well would allow retirement of 2-3 existing wells, retaining 1-2 as back-up. This project is in its design phase. If federal funds are forthcoming, construction is projected to begin in January 2010, and be completed by December 2010 at a cost of \$2,000,000.

Thank you for taking the time to read this letter. I hope it is informative and useful.

If you have questions about your water bill or water service, please call Violet Stoughton at the Municipal Water System office at 562-531-1500. If you have questions about water conservation, rate structure, operating budget, capital projects, or planned improvements, please call Assistant Director of Public Works Brian Smith at 562-804-1424, extension 2270. For other questions please call Assistant City Manager Lee Mingle at 562-804-1424, extension 2101.

Sincerely,



Michael J. Egan
City Manager

c: City Council