

SIERRA LAKES COUNTY WATER DISTRICT

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MEMORANDUM

ADDITIONAL JUSTIFICATION FOR MEDICAL & LEGAL COSTS

MAY 19, 2011

On April 20, 2011, the District transmitted a notice of proposed rate increase for the subject services. With several categories of costs referenced as contributing factors to the requirement for the rate increase. As a result of numerous communications from the public in regard to a justification for two particular cost categories; legal fees and post employment medical benefits, we have realized that we did not provide an adequate explanation for the proposed cost increases in these categories. We would like to supplement the information contained in the notice of April 20th with additional explanations for the noted cost categories as follows:

POST EMPLOYMENT MEDICAL BENEFIT COSTS:

In 1983, the District selected the Public Employee Retirement System (PERS) for provision of retirement and medical benefits for all active and retired employees. One of the basic provisions of the medical benefits program was the inclusion of lifetime medical benefits for everyone covered by the program. However, at that point in time, there was no administrative mechanism for providing funding for retiree medical benefits. As the consequences of this omission became more and more evident, the accounting profession adopted a provision that required the actuarial calculation of retiree medical benefits and the implementation of a program to fund these benefits. This policy was adopted by the Governmental Accounting Standards Board in Statement No. 45

(GASB 45) which became a requirement for all Municipalities in the State of California. No municipality can obtain audit certification without conforming to this requirement.

Last year the District commissioned an actuarial study to determine our unfunded liability for post employment medical benefits. The total was \$1,282,427. After an analysis of our financial condition and the amount of the unfunded liability, our Certified Public Accountant advised us that we would meet the requirements of the policy by charging an additional amount of \$69,786 per year into operating costs. Consequently, we must increase services charges to accumulate the funding for post employment (retiree) benefits.

As long as we are enrolled in the PERS medical benefit plan, we are locked in to a specified level of benefits and the requirement that we must provide medical benefit insurance to retirees. Consequently, we can only take limited actions to reduce our liability for medical benefit costs under the PERS plan.

LEGAL FEES

In 1964 Sierra Lakes was granted a water right for 1,177 acre feet. This grant was only in the form of a temporary permit which would not be finalized until the District had achieved full utilization of all of the water necessary to provide water service to all of the service connections within the District. The process for continuing to hold these temporary water rights was to submit an application for renewal every 10 years to the State Water Resources Control Board. Through 1995, our applications for renewal of our water rights were automatically approved by the State Board. However, after the year 2000, water supply in the State of California became a very critical commodity and a great deal of pressure was exerted on the Water Rights Division to restrict applications for extension and thereby provide water resources for other areas of the state. Officials from the Water Rights Division advised the District of this directly when they came up for an inspection of facilities in 2007. The primary pressure came from central valley

farming interests that were being cut back significantly in their water allocations each year.

As a result of these circumstances, our application for renewal that we filed in December 2005 was not automatically processed as it had been in the past. Due to the pressures exerted on the Water Rights Division, they adopted policies that required full justification for the extension of any Water Rights Application. This justification process required a review per the California Environmental Quality Act (CEQA) and a detailed justification of how the additional water requested was to be put to beneficial use. We were especially vulnerable to this process as our application for water was for 1,177 acre feet but the community was only using on average 100 acre feet per year. Due to these circumstances, the renewal of a Water Rights Application, for an extension of time, had become a somewhat adversarial process. Consequently, the District was required to obtain consultation in the area of Water Rights Law, Water Supply Engineering and formal preparation of CEQA documentation, all of which are classified as legal expenses.

Over the past three years, we have been developing data and preparing various environmental surveys to fulfill the CEQA requirements for our application for an extension of time. Our consultants have indicated that we are nearing completion of the necessary background data required to file the application, however, the culmination of legal effort, water supply studies, environmental reviews and other associated requirements will result in a substantial cost increase during 2011/2012.

Although the process is not complete at this point in time, we do believe we have taken the steps necessary to assure a continuing supply of water for the customers of the Sierra Lakes Water District through the foreseeable future.