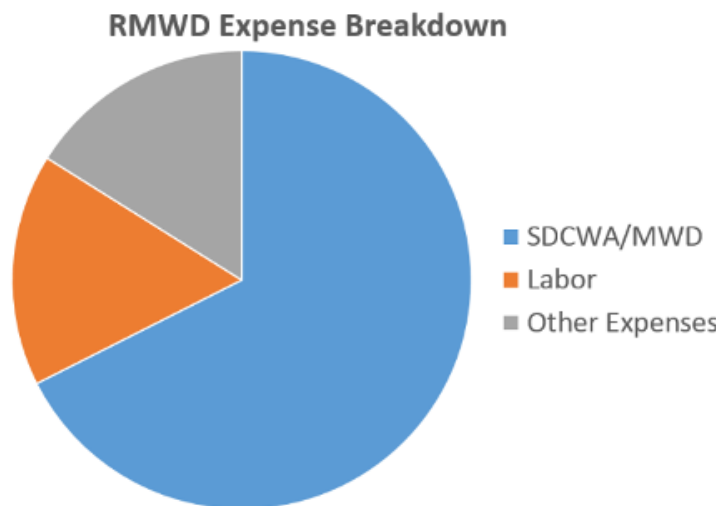


WHY ARE MY RATES GOING UP

Wholesale Water Cost Challenges

In our previous newsletter, we described some of the factors that lead the RMWD Board of Directors to file an application to change wholesale water suppliers. We got some excellent feedback from those who read the newsletter and we appreciate all your comments. As summer turns to fall, the RMWD Board along with the Budget and Finance Committee are now working on our new rates for 2021 and beyond. As we indicated, increases in our wholesale costs that we would have liked to avoid passing on to our customers are now at a point where we have little choice but to pass them along.



Where Your Money Goes

For every dollar that RMWD collects on your water bill, the vast majority of that money gets passed along to the San Diego County Water Authority (SDCWA). In turn, SDCWA sends a portion of that money to the Metropolitan Water District of Southern California (MWD). Combined, SDCWA and MWD comprise just under 70% of the total operating expenses of the District. From that dollar, only thirty cents stays here at RMWD.

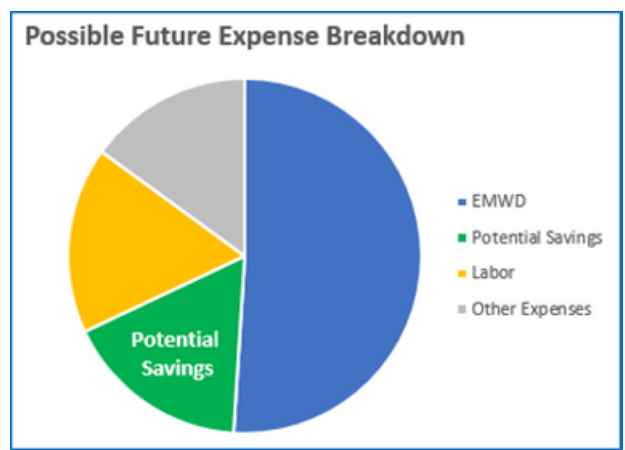
Of that thirty cents, about 17 cents goes to the labor required to perform all operational aspects of the water District. The cost of every person you see working for RMWD (fixing meters, repairing water mains, performing water quality sampling, or any other of the hundreds of tasks we do every day) comes out of that 17 cents. This is surprising to many people because our personnel are who our customers see the most.

The other 15 cents, covers our supplies, power, and outside services. The District outsources many tasks, from landscaping and janitorial services, to water bill printing/mailing. We have long term maintenance contracts for specialized water tank maintenance and pump control systems. We need power for pumping and we buy lots of pipeline construction materials, meters, and the like.

How Does Changing Wholesalers Help?

This second chart shows a possible outcome of changing wholesale providers. Note that until the Local Agency Formation Commission (LAFCO) approves our application none of this is guaranteed. LAFCO may also impose other terms and conditions that could reduce the savings. This chart is based on our current forecast of the EMWD water cost vs that of SDCWA. In this chart

the green piece of the pie represents the potential savings by making the change and it is substantial. That green section represents an approximately 17% reduction in our overall expenses – over \$6 Million per year. It is this potential savings that has been the focus of our efforts to secure a new wholesale water provider.



So What Are We Going To Do With The Savings?

We get this question a lot and want to be clear that we can't count our chickens before they hatch. Unless and until LAFCO takes action, all of this is speculative. While we are confident in success, anything could happen as that process moves forward. We have significant opposition to our detachment from SDCWA.

Here Are Our Current Plans Should We Succeed

- Our infrastructure is very old, and we have a need for significant reinvestment in rehabilitation or replacement of aging pipelines. Absent savings from getting a cheaper source of water, our forecasts indicate that we would need to raise rates significantly in order to maintain our system reliability. Should we succeed, those rate increases would not be necessary.

- Depending on what conditions LAFCO places on the change (if they approve it), we do expect to be able to reduce rates for our customers. How much the reduction is and how it is apportioned between your fixed charges and what you pay for consumption is uncertain until the process is complete. However, the one thing we are confident about is that if we succeed all ratepayers will benefit significantly.

Next Steps

From September through December we will be completing the process of defining the new water rates and holding public meetings and hearings on those rates. The rate increases under consideration now are primarily pass through increases due to the hikes being imposed by SDCWA as described last month. We will be discussing this at our Budget and Finance Committee meetings and we will also be holding public hearings at our Board of Directors meetings. We will be sending notices on the rate increases by special mailers as required by law, so keep an eye out for these. We will also be posting notices on our website so you can keep up to date by visiting www.rainbowmwd.com at your convenience.