

IMPORTANT --- GWD JUST ANNOUNCED CHANGE OF MEETING PLACE FOR JUNE 7TH MEETING TO HOLIDAY INN IN GOLETA AT 7 O'CLOCK. PLEASE TRY TO ATTEND!

ADDITIONAL COMMENTS AND OBJECTIONS TO THE PROPOSED RATE INCREASES BEING CONSIDERED BY THE GOLETA WATER DISTRICT AT THE BOARD OF DIRECTORS MEETING ON JUNE 7, 2006

I

INTRODUCTION TO OBJECTIONS

The undersigned sent a letter to the Board of Directors on Friday, May 19, voicing preliminary objections to the process and proposal to have a 4% rate increase to all customers, including the local schools that have an exemption to an increased which is a capital facility fee. Fortunately a group of concerned citizens appeared at the meeting on May 23rd and voiced such strong objections that all of the Board members at the meeting conceded that the lack of prior notice was unfair and that the consideration of the rate increase should be postponed. Even though two of the Directors suggested a month's delay in order to consider the facts in the budget and the basis for the proposed rate increase, behind the urging of Directors Rogers and Evans, the consideration was deferred only two weeks until June 7th. This delay was a smart P.R. decision of the Board, but done without any substantive benefit for the process and the education of the public. The delay has done nothing to cure the initial objections voiced by the public.

The GWD has done nothing to advise the general public as to the multitude of relevant questions asked about the budget and rate increase. They have not run any notices in the local newspapers telling its customers of the rate increase proposal or advising them of the June 7th meeting date. The reasoning of the Board in its complete failure to advise its customers has to be that the mere delaying the time of the decision made the entire process legitimate and the fewer customers who know about the rate increase, the better. The philosophy of Board has to be that the customers will find out about the rate increase when they receive their new bills! **THE DIRECTORS HAVE A SERIOUS BLIND SPOT WHEN IT COMES TO THE PUBLIC'S RIGHT TO KNOW AND THE DIRECTORS FIDUCIARY DUTIES AS ELECTED OFFICIALS!**

The GWD has taken no steps to adequately answer the multitude of very relevant questions posed by the customers who appeared at the meeting on May 23rd. If the District's staff and the Finance Committee had done a proper job in making and reviewing the budget and the reasons for the proposed rate increase, the answers to the questions should be readily available. Since none of the questions were answered at the meeting and as of the sending of these comments are still unanswered, it means one of two things. First, the answers are embarrassing and do not supports the proposed rate increase, or the Staff and Board had done a completely inadequate job in their initial analysis and the facts are not readily available. It is interesting to note that after the presentation by the staff of the materials on the budget and rate increase on May, 23, not a single question was asked by any Board member about the presented materials. Even the various questions raised in my letter sent on the prior Friday were completely ignored. Such a lack of inquiry and analysis is a complete dereliction of the Director's fiduciary duties. The Directors are treating its customers as though we are all village idiots and not worthy of their attention on matters such as rate increases. A 12% increase in the rates within a period of one year is completely unjustified and intolerable.

The Directors all claim to be the friend of the farmers, yet their actions are all geared to putting the farmers out of business. In July of last year there was a 5% rate increase for the farmers and now a proposed 4% increase. The period of the two rate increases covers the current crop season for avocados. The current price for local avocados is approaching a historic low and at the current prices the profits are gone. Add another 4% to the price of water and the consequences will be a disaster for many of the local farmers. The Directors heard the testimony of the farmers last year that the cost of water was one of their highest items of expense, but it is so sad that all of the Directors have such short memories. YES, DIRECTOR DE WITT, PENNIES DO COUNT WHEN YOU ARE ALREADY LOSSING MONEY ON YOUR CURRENT CROP! Hopefully the memories of the voters will not be short at the elections in November if the two current Directors whose terms are expiring seek reelection to the Board.

II

THE PREPARATION OF THE INFORMATION IN THE BUDGET AND THE JUSTIFICATION FOR A 4% RATE INCREASE REQUIRED AN “ENRONIAN” TYPE MANIPULATION OF INFORMATION AND ANALYSIS.

In order to support the new budget and the proposed 4% rate increase, several key pieces of information had to be manipulated or excluded and several invalid assumptions had to be set forth both as to the amount of anticipated revenues which would be available and the amount of expenses for the new fiscal year. Key to the success of the above process of deception by the Board was the need to provide no adequate advance notice to the public and suppress all relevant data being made available to the public. The introduction above covered the secret process and the Board’s complete failure to answer questions posed by the public. The facts speak for themselves. At the meeting on the 23rd the Board could not offer any valid reasons for the unacceptable short notice to the public of the proposed rate increase. At least all of the Directors agreed the lack of prior notice was wrong and did not vote on the budget and rate increase. However they have provided no additional answers to the questions asked by its customers.

The various factual hurdles of the staff and the Directors in supporting the budget and the proposed rate increase will be set forth below in each of the categories of excluding relevant information, decreasing the amount of projected revenues, and finally inflating projected expenses for next year. All of the above financial manipulations are required to be accepted as valid in order to justify the proposed budget and the 4% rate increase.

1. AREAS OF INFORMATION TO BE EXCLUDED FROM THE BUDGET AND RATE INCREASE ANALYSIS.

- A. Completely ignore the District’s current year’s economic performance which has the effects of the 8% rate increase approved last May. The District’s year to date financials for the period ending as of March 31st. paints too good of an economic picture of the District’s financial performance. The above financial statements are buried in the Finance Committee report which is completely separate from the budget and rate increase analysis. These current financial statements should be reviewed by everyone and should have been discussed as part of the analysis of the

rate increase proposal. The net revenues for the current year, excluding the bookkeeping entry for depreciating, showed an increase of \$2,111,000! No, this amount is not a typo. The March financials also show that the revenues for the period even exceeded this year's budget by over \$92,000. The March figures show that compared to the prior year's month to month totals, the District's net revenues are up by \$1,574,000 or a 11.2% increase. The District has had an excellent performance this year under the just passed 8% rate increase and of course the Directors do not want this information to be part of the current analysis. To justify the new 4% rate increase it is necessary to spread doom and gloom about the future and the District's current beneficial economic performance must be completely ignored.

- B. The budget and rate increase analysis completely exclude any discussion as to the pending status of the District's public notice of the sale of two parcels of vacant property. The properties have been advertised for sale for many months, but the Board has not made any disclosures as to the possible sales of said properties. Since the District's fiscal year is almost over, any sale will directly impact the revenues for next year. The two properties per the bid notices on the District's website are being offered for sale at a minimum price of \$ 575,000 per parcel or a total of \$1,150,000. If the sales are to be made next year, the extra cash generated by said sale or sales would eliminate the need for any rate increase. The sale of the properties is good news and does not support the gloom and doom analysis need to support a rate increase.
- C. The budget does not disclose the number and amounts of pending and anticipated government grants that may be received by the District in the next fiscal year. There is a vague reference to grants in the budget analysis without any quantification of the number and amounts involved. Of course, the receipt of any amounts of grants cuts against the need for any rate increase. The information has no doom and gloom and needs to be ignored.
- D. In summary, all of the above data is readily available as to the possible extra revenues available to the District next year, but all of the categories have been completely omitted from the analysis. The reasons behind the omissions are clear; their disclosure would show there is no justification for the rate increase. All of the above facts are know to each of the Directors, but all of them are engaged in a conspiracy of silence in a concerted effort to deceive the public. Shame on each of them!

2. THE MANIPULATION OF THE AMOUNT OF INCOME PROJECTED TO BE RECEIVED BY THE DISTRICT IN THE NEXT FISCAL YEAR.

One of the key components of the budget and the alleged need for the recommended rate increase is to project a low amount for next year's water sales. If the amount of water to be sold is high, then the amount of anticipated revenues will be higher. However, if the budget analysis projects that the amount of water sales will be low, then the District will have less revenue. Accordingly, in order to show less revenue for the next year, somehow the budget and rate increase analysis had to show low amounts of water sold. This was a very easy manipulation to do by adding a simple sentence that the

projections for next year's water use would be based upon the average water use for the prior 6 years. The amount of water use for next year would be thus 13,326 acre feet. It is instructive to note that in last year's budget and rate increase analysis, the District said it was proper to use a water use projection based upon the water use for the past 4 prior years. Thus for the current year's budget as to the amount of less revenues the amount of water sold was projected at being 13,668 acre feet. There is no attempted explanations for changing the number of past years water use from 4 to 6 years except to decrease the projected amount of revenues for next year. With less revenue per its projection of total water use, it is easy for the Directors to advocate a rate increase. Tell the village idiots that the amount of less revenue from lower water sales is going to be over 2.5% and thus do not complain about a 4% rate increase since the District is doing a great job and can not control the weather which dictates the amount of its water sales. The fallacy with the above position is that the District is improperly manipulating the figures on projected water use to suit its own purpose to project decrease revenues. It is worthy to note that for approximately the last two years these same Directors and staff members have been claiming that the use of water by the farmers was increasing at an alarming rate and thus rationing of water and punitive new rates were required to decrease the use of water by the farmers. Apparently for the current purposes of the Directors in projecting the water use of the farmers, it is proper to find that their water use will be less for next year. How convenient an assumption for justifying the proposed rate increase. Shame on the Directors and the staff for their intellectual dishonesty in the above analysis!

3. AREAS IN WHICH PROJECTED EXPENSES ARE OVERSTATED IN ORDER TO JUSTIFY THE 4% RATE INCREASE.

- A. The district's resident experts on inflation, both Mr. Walsh and Mr. Ford, have used in their budget and rate increase analysis the assumption that the specific expenses of the District in the next fiscal year will have a 4% increase due to inflation based upon alleged data from Los Angeles and Riverside Counties. The same superficial analysis was used last year to justify the 8% increase. This year, just like last year, there is no individual analysis done of the specific items of expenses of the District. It is unheard of in preparing a budget to ignore the specific items of the business's actual expenses and use a general across the board increase based on an assumed rate of inflation. The use of an alleged 4% rate of inflation is an improper smoke screen to hide the lack of any true analysis of the facts.
- B. The results of the District using the assumed rate of inflation of 8% for the rate increase in the current year's budget showed its fallacy based upon this year's actual financial results. The net revenues for the current year are up over 11% even though it has been a wet year and the amount of water sales are lower than in a more normal drier year. If the District's operations have been prudent and actual expenses controlled and possibly decreased in some areas, it does not matter what prices may be doing in other locales. If the expenses of the District are controlled and not increasing, there is no need for any rate increase. Thus if the actual expenses are not increasing in total amount, the District does not want to

disclose the true facts since the facts would show that the 4% rate increase is not justified. The above is the simple reason for non disclosure of the data on actual expenses. The information is on the District's new expensive computer system, but the Directors do not want to disclose all of the facts prior to the meeting on the 7th.

- C. The true rate of inflation is not 12% as alleged and relied upon by the District in its last two budgets and rate increase analysis. It is important to note that no where in the budget and rate increase analysis any reference is there as to the specifics and the source of the alleged rate of inflation. I, and most other persons trying to create budgets and deal with inflation prefer to rely upon data being used by the Federal Reserve Board of Governors and their analysis of what is the true past and current rate of inflation in the economy. As most people know, one of the principal concerns of the Federal Reserve Board is to protect the general economy and probably its biggest worry is to control the rate of inflation. Recently a series of questions on inflation was presented to Ben Bernanke, the chairman of the Board of Governors of the Federal Reserve, during his testimony before the Joint Economic Committee of Congress. Ben Bernanke's written responses to the congressional Committee's questions were released on May 25, 2006. One of the responses was on the topic "Recent trends in inflation, and the relative merits of the personal consumption expenditure deflator and the consumer price index as measures of inflation" The responses are directly on point since the District is apparently relying upon the consumer price index(CPI) from Los Angeles/Riverside to determine its % rate of inflation. A summary of his lengthy reply is that the CPI index has a certain bias to overstate the amount of inflation and that it is better to use the index of personal consumption expenditures index (PCE) which has a lesser bias. More important as to the rate of "core inflation" which excludes the very volatile food and energy costs, which are basically not applicable to the costs of the GWD, inflation in the past two years have been stable. At page 5 of his letter to the Committee, he stated:

"Although increases in energy prices have pushed up overall consumer price inflation over the past couple of years, core inflation has been more stable. The core PCE price index increased 2 percent over the twelve months to March of this year, about the same as the increase over the preceding twelve months. Similarly, the core CPI has increased 2 ¼% over each of the past two years. The stability of core inflation, even as many firms have faced substantial cost increases for energy products, has been enhanced by the fact that long term inflation expectations appear to remain well contained. Of course, inflation expectations will remain low only so long as the Federal Reserve demonstrates its commitment to price stability"

The Federal Reserve has made 16 straight interest rate increases and this is its clear as to its commitment to control future inflation.

The use or justification of 4% future inflation amount to justify a current 4% rate increase is entirely improper and not warranted. WHAT ARE THE SPECIFIC COST INCREASES OF THE GWD EXPENSES THAT ARE REASONABLE JUSTIFIED AND NOT BASED UPON SPECULATION AS TO THE GENERAL PCE OR CPI?

III

THE BOARD'S COMPLETE FAILURE TO ADDRESS THE ISSUE OF THE PROPOSED RATE INCREASE AS IT APPLIES TO THE LOCAL SCHOOLS PER SECTIONS 54999 ET SEQ. OF THE GOVERNMENT CODE IS AN OUTRAGE AND A COMPLETE BREACH OF THE DIRECTORS DUTIES AS ELECTED PUBLIC OFFICIALS.

The Directors can not claim any lack of knowledge as to the existence or application of rate increases which are applicable to schools. They are currently being sued by the Regents of the University of California for last years increase as applied to UCSB. For the past several months the above litigation has been the topic of closed sessions of the Board after its regular meetings. I have raised it in my letter of May 19th and was discussed by Ann Crosby at the May 23rd. meeting. The only response given by the Board is dead silence.

The Board has not even tried to justify its position on raising the rate to the local schools by putting forth its position on its website. Why the silence? This is all part of the overall initial game plan of the Directors in giving completely inadequate prior notice of the proposed rate increase. The District has never dealt with the local schools on the consequences of sections 54999 et seq. of the Government Code and thus they were probably completely unaware of its protections against rate increases. Therefore, if the directors say nothing and keep every thing on a fast track for their vote on the rate increase, the schools will not be able to react to the situation before next week's meeting. If the above game plan works, then the only relief for the schools is to file a lawsuit against the District. School Districts are not equipped to process and react quickly to the current situation and there is a good probably that the game plan of the Directors will allow the District to charge the schools the full 4% rate increase.

Public officials are to uphold and comply with the laws of California, but the current Directors apparently hold themselves above the law. If there are any valid reasons for claiming that the Government Code provisions do not apply to the current rate increase as to be applied to the local schools, then the directors have both a legal and moral obligation to fully disclose their positions. No one benefits from the Director's continuing silence which may lead to litigation which will become an additional expense that will have to be accounted for in next year's budget. This is the time for the truth to be told before there is more litigation!

In conclusion, I apologize for the length of the above, but much has to be asked and answered. The 5 minutes that I will have to speak on Wednesday will be completely inadequate for the task. I am assuming based upon my past experiences in dealing with the Board none of the questions asked above will be answered before or at the meeting on the 7th. I hope there will be enough of us village idiots present on the 7th to specifically ask all of the required questions and demand appropriate answers. I hope and believe that the principles of our democratic society will be alive and well at the meeting at the Holiday Inn.

Dated: June 2, 2006

One of the Village Idiots
Jack Ruskey