

Future of the Lincolnwood Mutual Water Company

Q & A

Prepared by City staff and the LMWC Board President

Introduction and Executive Summary

Background

The Lincolnwood Mutual Water Company (LMWC) and City of Santa Barbara both have a shared interest in the sustainable management of water in the Foothill Groundwater Basin. The groundwater basin is a shared resource for all water users in the community. The City's desire is to protect the shared water supplies for the entire City community, create equity among all users of those shared supplies, and guarantee safe, reliable drinking water for all residents.

One of LMWC's two wells has failed due to nitrate contamination. LMWC has received a letter from County Department of Public Health urging LMWC to secure a backup supply. Before LMWC shareholders make an investment in drilling a new well, the City is considering enacting an existing agreement from 1979, which provides the City with the option to assume ownership of Lincolnwood's water system and infrastructure, and have the Lincolnwood neighborhood become City water customers. After over a year of discussions between the City and LMWC representatives, two viable paths forward have emerged that LMWC shareholders need to weigh in on. The preferred path of the LMWC shareholders will be brought forward to the Water Commission and ultimately the City Council. City Council will make the final decision on which path to take.

Potential Paths Forward

Numerous meetings spanning over more than a year have taken place between City staff and LMWC representatives which have resulted in two potential paths forward for LMWC shareholders. Those paths are:

1. Enact the existing 1979 agreement and have the Lincolnwood community become City water customers at no expense to Lincolnwood residents; or
2. Enact a new agreement that would allow LMWC to continue to operate under new terms that would bring them into compliance with current water supply management and conservation best management practices. The term sheet for this agreement was created in collaboration between City staff and LMWC representatives. Under this agreement, LMWC would be responsible for drilling a new well, per County Health's direction, installing new water meters, billing residents volumetrically for water usage, and abiding by groundwater pumping limitations which would align LMWC water usage with the usage of City water customers.

Final Decision

City staff will present both paths to Water Commission and City Council for consideration. Staff requests LMWC shareholders determine their preferred path and share it with the City by early 2021. City staff's recommendation will reflect the LMWC shareholders' preferred path forward. The item is tentatively scheduled at City Council for a final decision in early 2021. City Council will make the final decision on a path forward.

City staff requests that LMWC indicate their preferred path forward so staff can recommend that path to City Council. City Council will make the final decision on which path to take forward. Although City Council takes staff's recommendation very seriously, City Council is not obligated to follow staff's recommendation.

Information Session and Contact Information

An informational session for LMWC shareholders will be hosted by the City and the LMWC Board President on November 12, 2020 from 6pm – 7:30pm using the GoToWebinar platform. The information session will be recorded for those unable to attend. To register for the webinar, please visit www.SantaBarbaraCA.gov/Lincolnwood.

Please feel free to reach out with any questions to:

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Cost Summary Table

	Path One: Enact 1979 Agreement, Lincolnwood Connects to City system	Path Two: Enact a New Agreement and Regulations, LMWC Retains System
One Time Costs	\$0	\$2,951
One Time Pay out to shareholders	\$950	\$0
Monthly Water Bills	Monthly costs will vary based on water usage. Low water user (4 HCF): \$49.48 Average water user (9 HCF): \$118.17 Higher water user (15 HCF): \$ 200.59 100 Cubic Feet (1 HCF) = 748 gallons	Flat monthly rate no longer permitted. Draft rates are per the LMWC Board President. Monthly costs will vary based on water usage. Low water user (4 HCF): \$28.16 Average water user (9 HCF): \$63.36 Higher water user (15 HCF): \$ 105.59 100 Cubic Feet (1 HCF) = 748 gallons
Monthly Sewer Bills	Monthly costs will vary based on water usage: Low water user (4 HCF): \$35.72 Average water user (9 HCF): \$53.37 Higher water user (15 HCF): \$56.90	Sewer costs will always be the maximum residential sewer bill. Currently \$56.90.
Water System Maintenance Obligations	City performs all work on the system. Cost is covered by utility bill.	LMWC and shareholders must perform and fund all ongoing maintenance. Need for capital improvements should be anticipated.
System management	City assumes responsibility for system management.	Board members urgently needed. Currently, the LMWC is out of compliance with its bylaws.
Connection Fees to the City's system	Connection fees waived.	Payment of fees due at the time of connection. (Currently estimated at \$13,645 per household and will increase annually.)

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About the Lincolnwood Mutual Water Company

How did Lincolnwood Mutual Water Company (LMWC) come to be?

The development that would eventually become the Lincolnwood neighborhood ran into two major obstacles: a major recession, and a moratorium on new water connections from Goleta County Water District.

- The major recession in 1979 convinced the developers to sell the developed lots, which led to each homeowner building their custom home. The individual homes were built in the early 1980s.
- Although the property was located within City limits, the water provider for that area at the time was the Goleta County Water District (District), not the City of Santa Barbara. The District denied water service to the development, because it had a moratorium on new connections at that time. The City approved the subdivision of the property, in spite of the lack of public water service. This was under the conditions that the developer build a private water system to serve the new development, and give the City the option to one day assume ownership of the system assets, and become the water purveyor for the development. The developer built the water system and incorporated it into a shareholder-owned Mutual Water Company, with each homeowner owning a single share of the company.

What is the LMWC's water quality like?

All state and local drinking water quality and safety requirements are achieved. LMWC has a licensed well operator who maintains the system in good repair. Additionally, state-approved laboratories test the water quality for coliform bacteria, gasses, metals and a host of other contaminants.

What is the financial status of LMWC?

Per the LMWC Board President, LMWC currently has a total Checking and Savings reserves of approximately \$58,000. Please contact the Board President if you would like more detailed information on the financial status of LMWC.

Who manages the LMWC? What are the management needs?

Per the Board President, the Board has been reduced to one individual. LMWC is in immediate need of at least three additional board members to comply with its bylaws.

What is the state of LMWC's water system?

The Water Company was designed by a local engineering firm, Penfield and Smith (recently bought by Stantec). Apart from the failure of the second well, the system has had low levels of failures and has continuously performed for the past 41 years.

A brief description of the physical plant is as follows.

- Raw water is pumped from wells on the east side of the subdivision near the creek. For many years, two wells were used as designed to deliver water to the water house located at 3749 Lincoln Road. The water house resembles a normal house, but is filled with equipment to store and process drinking water. A large tank contains 300,000 gallons of water storage, which can meet customer demands for approximately seven days. An emergency diesel generator can provide uninterrupted electrical power for pumping, processing, and delivery of water in case of a Southern California Edison power failure.

- LMWC water is chlorinated and regularly tested for copper, lead, bacteria, and many more contaminants as defined by state and local regulations. LMWC is in compliance with these regulations.
- Each home is equipped with a water meter, which is owned by the LMWC. The water meters are currently not functional and require replacement. The piping from the meter to each home is the responsibility of the homeowner.
- Licensed well operators run and maintain the system, and state and county inspectors regularly inspect the system for safety and code compliance.

Water delivery to residents has been uninterrupted over these past four decades. During that time, there have been many challenges including droughts, electrical failures, and mechanical failures. In recent years, increasing nitrate levels have caused LMWC to shut down one of its two wells. Nitrates are a result of nitrogen compounds infiltrating the well, which are harmful to infants and some sensitive persons. Common sources of nitrates are typically fertilizers and septic systems. Please note that the nitrate levels never exceeded the safe levels permitted by any regulatory agency.

The following is a brief history of significant events for the LMWC's water system:

- In response to slowly increasing nitrate levels, an investigation and remedial actions were taken over the past decade. Through an investigation, it was discovered that Well #2, nearest the creek, was improperly constructed. Water had been introduced into the well from the upper portion of the groundwater basin, which has elevated levels of nitrates.
- As a result, Well #2 has been shut down and will be destroyed in the future.
- As this system is designed to be largely redundant, LMWC desires to drill a replacement well to restore the redundancy of water supply. The County Department of Public Health has also urged LMWC to maintain two wells.
- At this time, LMWC pumps from Well #1 exclusively. Its level of nitrates are currently at safe levels and do not show signs of increasing.

Path One - Enact 1979 Agreement and Residents Become City Water Customers

What are the terms of the 1979 agreement?

The agreement is available in its entirety on the City's website: SantaBarbaraCA.gov/Lincolnwood. The agreement was recorded with every property sold in the Lincolnwood neighborhood. The main points are:

- The City is granted the option and right to acquire, own, and operate the private water system for the City's benefit at any time, making Lincolnwood parcels City water customers at the time of acquisition.
- Should the City exercise its option to acquire the LMWC water system, the City does not have to pay to acquire the system, and the fees for shareholders to connect to the City's water system would be waived.

How much are the connection fees that would be waived?

There are two main costs to connect to the City's water system—installation fees and capacity charges. Installation fees cover physically connecting to the City's water system. Capacity charges, also known as

“buy-in” fees, are charges that all new customers of the water system have to pay to buy in to the equity of the water system. Capacity charges put new customers on the same level with all other water system customers who have been paying for the infrastructure, operation, and maintenance of the system for years.

- Installation fees to connect the LMWC water system to the City’s water system at three points along Hope Ave: approximately \$260,000.
- Capacity charges, aka “buy-in” fees: \$9,230 per 5/8” water meter x 61 residential water meters and one common area meter = \$572,260.

Total waived fees equal **approximately \$832,260 (or ~\$13,645 per property).**

If the Lincolnwood homeowners were to become City water customers, how much would an individual’s City water and wastewater (sewer) bill be?

City water and sewer charges consist of a fixed monthly service charge and volumetric charges based on water usage. Please see the below chart for bill amounts based on different levels of water usage. Average water usage for single family residential City water customers is 9 HCF/month. (One Hundred Cubic Feet = 1 HCF = 748 Gallons.)

Note that Lincolnwood residents are currently City sewer customers and already receive a monthly bill for that service. Because the City does not have water usage information for each property to use to bill customers volumetrically for their sewer service, City sewer bills for Lincolnwood residents are set at the maximum residential sewer bill, currently \$56.90/month. If homeowners connect to the City system, residents who use less than 10 HCF of water per month will be able to lower their sewer bills. For residents whose water usage is 10 HCF/month or greater, their sewer bill will stay the same as their current sewer bill.

Water Usage per Household	Total Monthly City Water Costs monthly service charge + volumetric water charge + utility users tax	City Sewer Cost Monthly service charge + volumetric charge	Total Cost of City Water and Sewer
2 HCF	\$40.07	\$28.66	\$68.73
4 HCF	\$49.48	\$35.72	\$85.20
6 HCF	\$76.96	\$42.78	\$119.74
8 HCF	\$104.43	\$49.84	\$154.27
9 HCF*	\$118.17	\$53.37	\$171.54
10 HCF	\$131.91	\$56.90	\$188.81
12 HCF	\$159.38	\$56.90	\$216.28
13 HCF	\$173.12	\$56.90	\$230.02
15 HCF**	\$200.59	\$56.90	\$257.49
18 HCF	\$241.87	\$56.90	\$298.77
20 HCF	\$243.99	\$56.90	\$300.89

*Average City water customer monthly water usage for single-family residential homes

**Current Lincolnwood average usage is about 15 HCF per household per month (per LMWC data). Note this is total monthly pumping divided by 61 households. Actual individual household water usage varies, being less for water-conserving households and more for higher water-using households.

If the City were to acquire the system, would Lincolnwood residents have to pay for future repairs and/or maintenance to the system?

No. Lincolnwood residents would become regular City water customers, and would not have to pay any special maintenance fees associated with the public system. Regular monthly water bills fund system maintenance. Maintenance of the water system on private property would be the responsibility of the homeowner, as it currently is with the LMWC.

If the City were to acquire the system, what would happen to the property with the water house?

Per the 1979 agreement, the City would acquire the entire system, including the water house at 3749 Lincoln Road and the property it sits upon. The City would maintain the property's current appearance as a single family residence. The City does not currently have any plans to alter the appearance of the property.

The Water Resources Division has a long history of maintaining water infrastructure throughout the City in close proximity to residential neighborhoods. The Water Resources Division prides itself on being good neighbors. If any changes are needed that would require aesthetic changes, the City would be held to all the same design review standards as other developments in the City.

If the City were to acquire the system, would Lincolnwood homeowners face development restrictions or moratoriums on water meter issuance?

There are currently no development restrictions in place related to drought or water meter issuance moratoriums. Although our neighboring agencies in Goleta and Montecito imposed moratoriums on the issuance of new water meters during the drought; the City did not take that approach. Additionally, the City never levied special drought surcharges or drought impact fees as neighboring agencies did.

Can Accessory Dwelling Units (ADUs) be built?

ADUs in the City are allowed. Installing a new City water meter to serve the ADU is allowed if desired, but it is not required. For newly constructed ADUs, the applicant will be required to install a private water submeter on their property to measure the water to the ADU. These meters currently do not require additional permitting outside the building permit for the ADU.

Are new swimming pools or spas allowed?

There are no drought moratoriums on installing new swimming pools and/or spas. Lincolnwood residents could apply for a permit to construct a pool or spa, like any other City resident.

If the City acquires LMWC's water system, what would happen to the funds in LMWC reserves?

The City would acquire the water system, but would not acquire the funds in the LMWC reserves. The reserves could be distributed evenly amongst the shareholders. Upon being acquired by the City, each shareholder would receive approximately \$950.

If the City acquires LMWC's water system, would the City pay for the destruction of the non-operational well (Well #2)?

Yes, if the City acquires the water system, the City would pay all costs related to the destruction of Well #2.

If the City acquires LMWC’s water system, are there resources available to help Lincolnwood residents’ reduce their water usage and water bill?

Yes, the City has a robust water conservation program staffed with experienced water conservation specialists. Water customers may call the Water Conservation Hotline to book a free water checkup. At your water checkup, water conservation staff will work with you to assess water usage on your property and identify ways to save water and lower your water bill. Water checkups are also useful for finding leaks and helping you better understand your irrigation usage and system. Water checkups have traditionally been conducted in person. However in response to COVID-19, staff have adapted to conducting water checkups over the phone, and are able to video chat with customers.

For more water conservation resources, please visit www.SantaBarbaraCA.gov/WaterWise

How robust is the City’s water system?

The City’s water system is dynamic and robust, and has many built-in redundancies. In comparison, the LMWC relies on a single supply source—groundwater—for their water supply. In contrast, the City has a diverse water supply portfolio, which includes surface water from Lake Cachuma and Gibraltar Reservoir, State water, groundwater, desalinated water, and recycled water. The City is also able to purchase supplemental water supplies during times of drought to ensure its water customers always have ample water supplies. This diverse portfolio of supplies enhances the City’s ability to supply water even under catastrophic circumstances.

The City has a healthy annual Capital Improvement Program used to reinvest in its water infrastructure. City Council has established a goal of annually replacing 2% of the City’s water mains, which is on average the replacement of six miles of water mains annually. In comparison, LMWC’s water system is nearly 40 years old, which is nearly halfway through its expected useful life. LMWC should anticipate having to make significant capital improvement in the coming years.

Path Two - LMWC Retains the System and Operates under New Regulations

What is LMWC’s water system’s anticipated useful lifespan?

Different pieces of equipment have different life spans – wells are typically 30 years, water mains 80 years, and pump stations 20 years. The system is currently about 40 years old. Like any water system, over time parts of the system will fail and will need to be replaced. This includes pumping equipment, treatment equipment, storage reservoirs, water mains, service lines, water meters, and electrical equipment.

If the LMWC retains the system, would the shareholders be responsible for paying to replace the system when it reaches the end of its useful life? How would it be funded?

Shareholders would be responsible for paying to replace the LMWC water system. The system replacement effort would be funded by water bills and/or special assessments to shareholders.

How much water does the LMWC currently use; and, how are homeowners charged for water use?

LMWC has been tracking total water produced and reporting it monthly. Included at the end of this document is a record of the total monthly volume of water pumped through the water house. Total water pumped through the water house in 2019 was about 8.4 million gallons. Divided by 61 homes, this equals about 11,500 gallons/household/month or about 15 HCF/household/month (1 Hundred Cubic

Feet = 1 HCF = 748 gallons). However, the individual residential water meters are not read each month, so it is unknown how much water each individual property actually uses. The current practice is to charge each property a flat fee of \$75/month, regardless of actual water use. A flat monthly rate would no longer be allowed if LMWC retains the system.

The Lincolnwood Water Use graph (provided at the end of this document) demonstrates that LMWC's water usage peaks seasonally in the warmer months, and water demands have been consistent over the past several past years. Water demands were greatest in 2013, which was at the beginning of the recent drought, and before water conservation practices had been widely adopted.

LMWC provides homeowners with periodic reminders on the importance of water conservation. However, the City has received several "Waste of Water" complaints from outside the Lincolnwood neighborhood in response to water actively flowing from Lincolnwood properties and down City streets.

What are the terms of the agreement that would allow LMWC to retain the water system?

The term sheet for the potential agreement is available on the City's website:

SantaBarbaraCA.gov/Lincolnwood. The key terms of the agreement are:

- Pumping from the groundwater basin would be capped at 22 Acre Feet (AF) per year.
 - This equates to each Lincolnwood property using approximately 13 Hundred Cubic Feet (HCF) per month (1 HCF = 748 gallons). City water customers typically use about 9 HCF each month. Total current LMWC pumpage divided by 61 homes equals about 15 HCF per month.
 - LMWC shall stay below the annual 22 AF cap. Pumping over the 22 AF limit would be allowed only under extenuating circumstances and would be charged at the City's highest residential water rate. This rate is currently 23.98/HCF, or \$10,445 per AF for usage over the cap.
- City would issue LMWC a permit for demolition of the existing well and a permit to drill a replacement well.
- LMWC would install water meters for each parcel it serves for billing purposes.
- LMWC would read water meters monthly and bill customers volumetrically for water service. Charging a universal flat fee for water would no longer be allowed.
- LMWC customers would be subject to the City's regulations regarding use and waste of water.
- The existing 1979 agreement would become null and void.
- Any and all future connections by LMWC to the City water system, whether it be for new development, an emergency connection due to system failure from a natural disaster, or any other circumstance, ***will be at full cost, including capacity charges.*** This cost is approximately \$832,260 (or \$13,645 per property) at this time, but will continue to increase every year.

Why can't LMWC continue to operate as it has in the past?

The groundwater basin that LMWC pumps from is a shared resource for all water users in the community. If LMWC continues to operate, it's important for LMWC to abide by best management practices for water supply management and water conservation. Although LMWC has encouraged its customers to conserve water, LMWC currently does not measure water to each property or bill volumetrically for water usage. These are critical tools to incentivize conservation and empower customers to actively manage their water consumption.

What monthly and onetime costs are associated with retaining the water system?

Under the terms of the agreement that would allow LMWC to retain the system, the LMWC would have to install new water meters, read those water meters at least monthly, and bill all its customers based on actual water usage. It could no longer bill all customers a flat charge every month. A draft pricing structure for monthly water bills is included in the summary table on page 2. Please contact the LMWC Board President for more details on those draft rates.

Per the terms of the proposed alternative agreement, LMWC would be capped at pumping 22 AF from the groundwater basin a year. Any pumping above that limit would be charged at ~\$10,446/AF. This amount would change with any changes in City water rates. LMWC is currently pumping about 25.8 AF per year. If this level of pumping were to continue, this would translate to an extra \$54/month/property on top of the standard water bill.

Sewer charges would remain at \$56.90/month and would change as the City updates its sewer rates.

Per the Board President, there are also one-time expenses LMWC would fund using a special assessment:

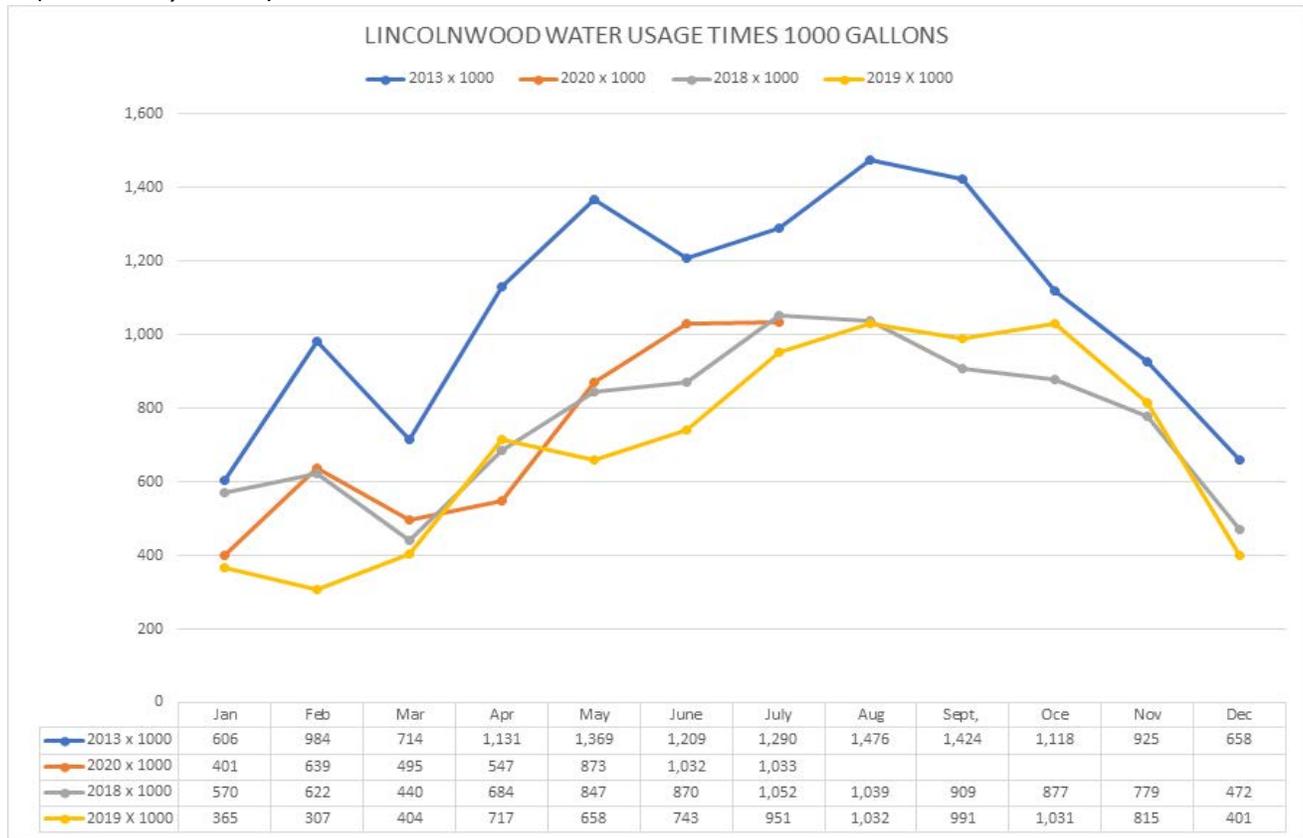
1. Permitting and destruction costs for failed Well #2
2. Permitting and drilling costs for replacement Well #2
3. Water meter replacements (to allow for volumetric water billing)

<i>Item #</i>	<i>Itemized Cost</i>	<i>Annual or one-time Cost to LMWC</i>	<i>One-time assessment to each home to cover these costs</i>
1	Permitting and Destruction of Well #2	\$10,000	\$ 163
2	Construction of New Well #2	\$145,000	\$ 2,338
3	Replacement of water individual meters	\$450 one-time cost to each shareholder	\$ 450
			~\$ 2,951 One-Time Assessment*

*Cost estimates have been provided by the LMWC Board President. The actual cost could differ.

Reference Information

LMWC Pumping Data (Provided by LMWC)



ITEM	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL YEAR	Avg. MONTH
Well 1 production (acft)	1.23	1.96	1.52	1.68	2.68	3.17	3.34							
Well 2 production (acft)	offline	offline												
Total Monthly Production (acft)	1.23	1.96	1.52	1.68	2.68	3.17	3.34							
Cumulative Water Production (acft)	1.23	1.96	1.52	1.68	2.68	3.17	3.34							
Avg. Well 1 pump rate (gpm)	145.0	145.0	145.0	145.0	145.0	145.0	145.00							
Avg. Well 2 pump rate (gpm)	offline	offline												
Booster pump 1 run time (hr)	10.1	12.4	15.6	14.1	23.2	24.5	27.4							
Booster pump 2 run time (hr)	9.9	12.2	15.3	13.8	22.7	24.0	26.7							
Standby Power Genset run (hr)	364.2	364.6	365.1	365.5	366.0	366.5	366.9							
Fire Pump run (hr)	122.60	122.90	123.10	124.10	125.10	126.10	127.10							
Avg. Reservoir level (ft)	14.3	14.7	15.0	14.8	14.5	15.3	15							
Avg. Reservoir Cl2 residual (ppm)	0.6	0.7	0.8	0.9	0.7	0.5	0.5							
Avg. System pressure (psi)	63	63	63	62	63	64	63							
Avg. System Cl2 residual (ppm)	0.6	0.7	0.8	0.9	0.7	0.5	0.5						n/a	
SCE meter 1 usage (kWhr)	1789	2292	1996	2050	2942	3060	3347							
SCE meter 2 usage (kWhr)	offline	offline												
Total SCE usage (kWhr)	1789	2292	1996	2050	2942	3060	3347							
Customer Water Quality Complaints	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5 minute Well 1 pump rate (gpm)	142.1	142.0	143.0	142.5	142.1	142.0	142.5						n/a	n/a
Well 1 Static level (ft.b.g.s.)	170	171	170	171	170.0	172.0	177.0						n/a	n/a
Well 1 Pumping level (ft.b.g.s.)	200	202	200	201	200.0	205.0	205.0						n/a	n/a
Well 1 Drawdown (ft.)	30.0	31.0	30.0	30.0	30.0	34.0	28.0						n/a	n/a
Well 1 Specific Capacity (ft.)	4.7	4.6	4.7	4.7	4.7	4.2	5.0						n/a	n/a
Nitrate @ Well#1 (mg/L)	1	0.8	1	1	1	0.8	1						n/a	n/a