



SANTA MARGARITA WATER DISTRICT
COMMUNITY SURVEY

REPORT ON RESULTS

October 5, 2011

SANTA MARGARITA WATER DISTRICT COMMUNITY SURVEY REPORT ON RESULTS

From Friday, September 30 through Sunday, October 2, 2011 Probolsky Research conducted a telephone survey within the boundaries of Santa Margarita Water District

A total of 325 surveys were collected. A survey of this size yields a margin of error of +/- 5.4% with a 95% degree of confidence.

Interviews were conducted with voters on both landline and cell phones.

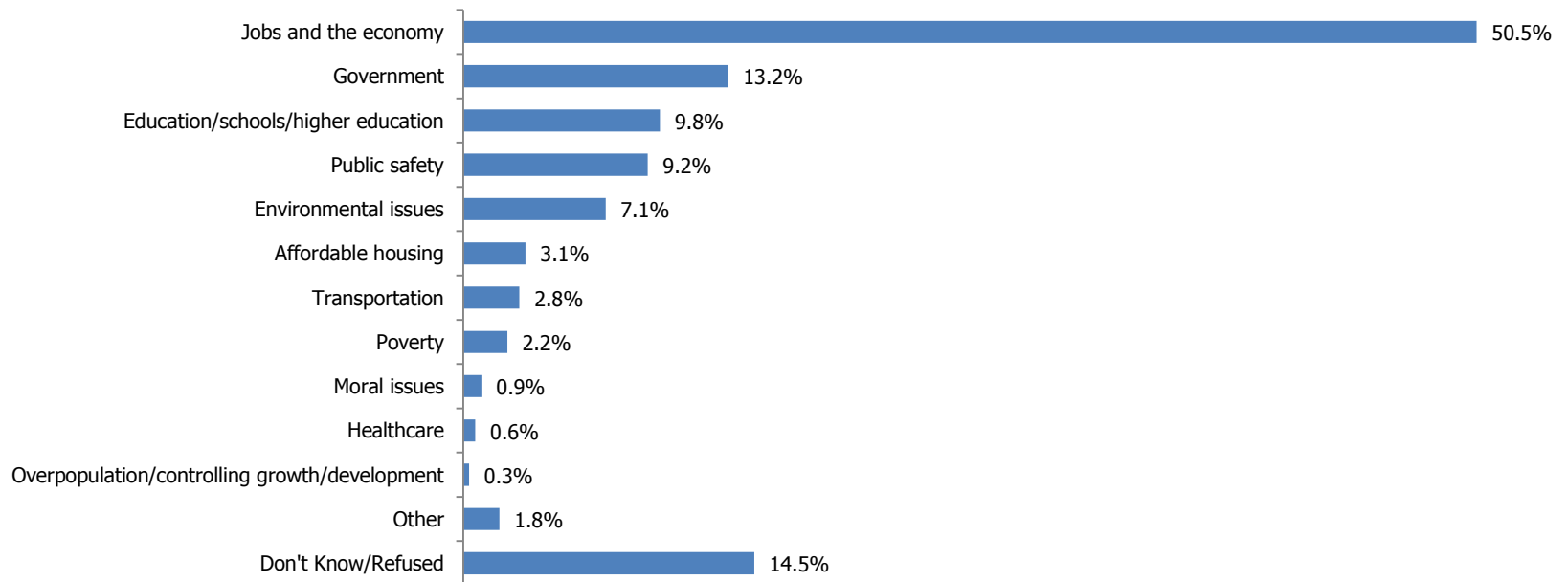
Probolsky Research LLC specializes in opinion research on behalf of government, corporate and media clients.

WHAT IS TOP OF MIND FOR DISTRICT VOTERS?
HIGHLIGHTS FROM THE CLOUD



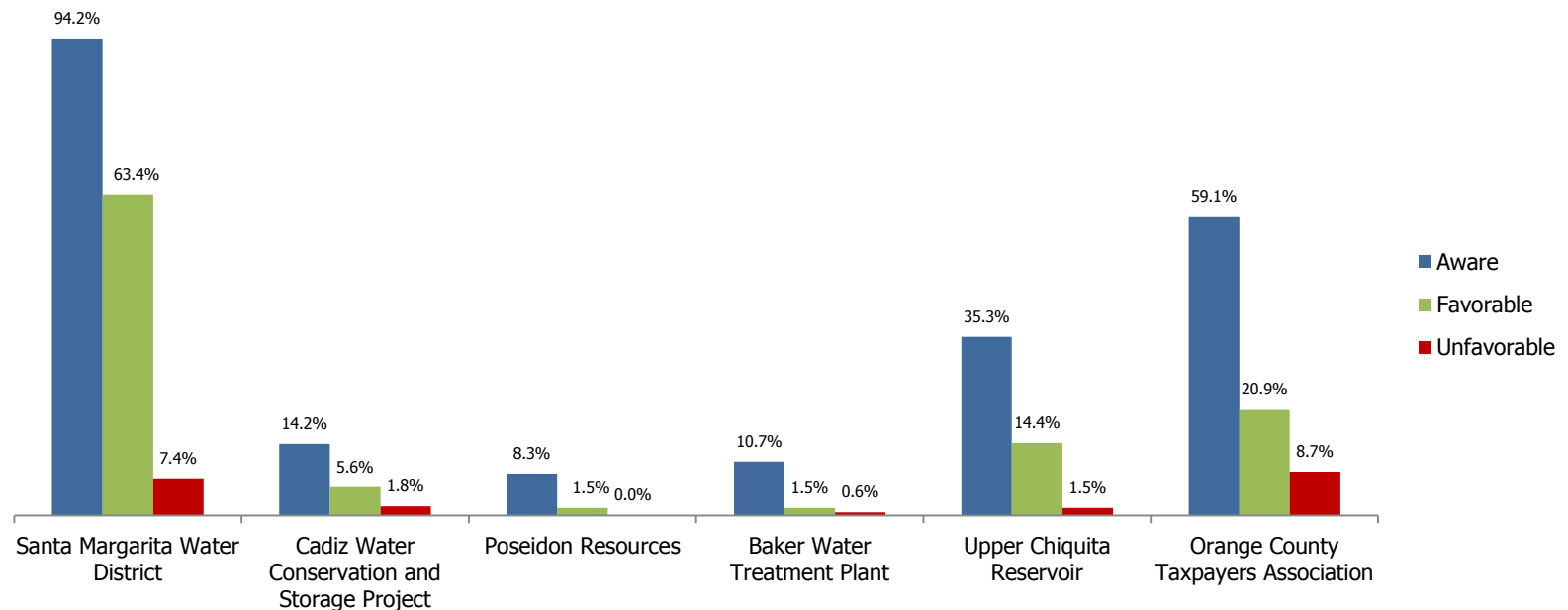
JOBS AND THE ECONOMY IS THE MOST IMPORTANT ISSUE TO DISTRICT VOTERS

Question: What is the most important issue facing your community today?



SMWD ENJOYS THE HIGHEST NAME RECOGNITION AND FAVORABILITY AMONG ORGANIZATIONS AND PROJECTS TESTED

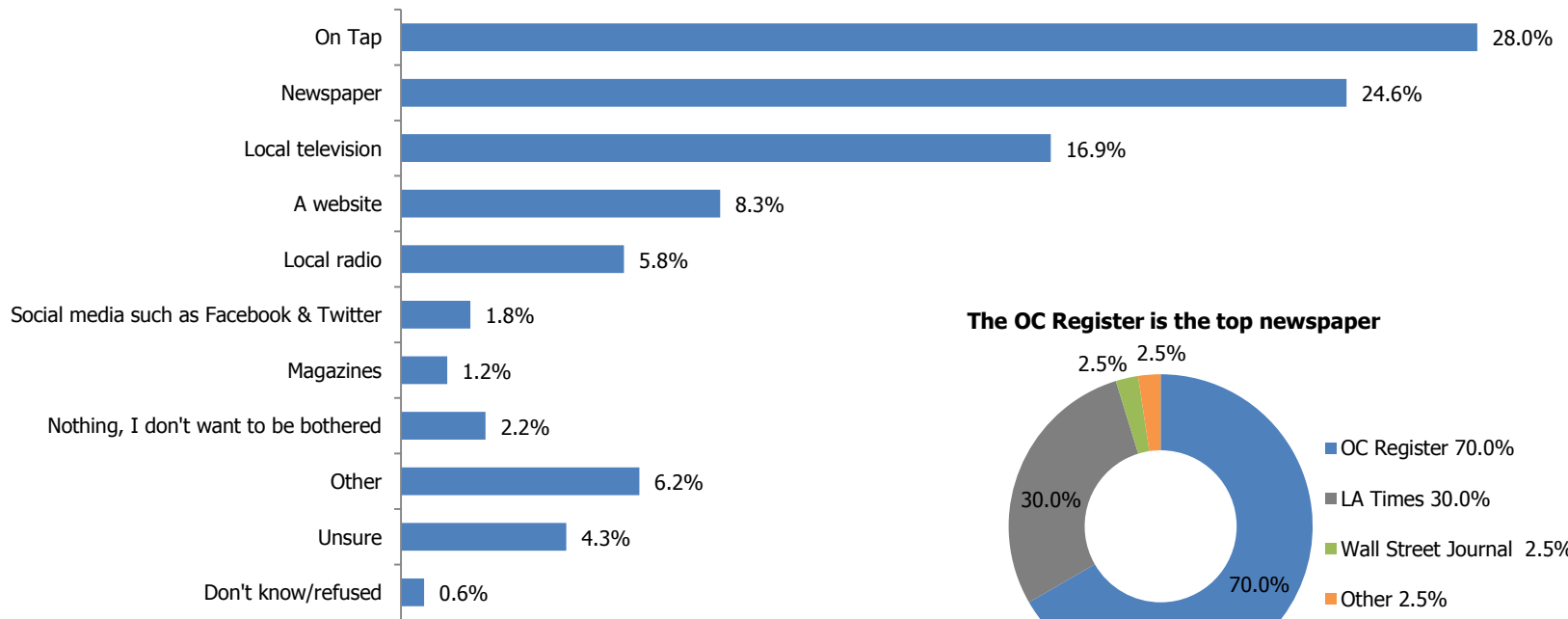
Question: Now I have a list of names of several organizations and projects that I am going to read. For each name, please tell me if you have heard of them and if you have a favorable or unfavorable opinion of them. If you have no opinion or have never heard of them, just say so. The first name is [READ NAME]. Have you heard of [READ NAME]? Would you say that you have a favorable or unfavorable opinion of [READ NAME]? [RECORD] [IF FAVORABLE OR UNFAVORABLE>>>] And would you say that your opinion is somewhat or very (favorable/unfavorable)?



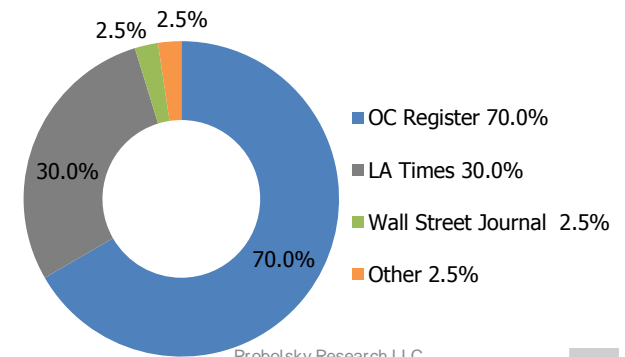
ON TAP

IS THE #1 SOURCES FOR NEWS/INFO ABOUT WATER

Question: What is your number one source for news and information about water and water-related issues?



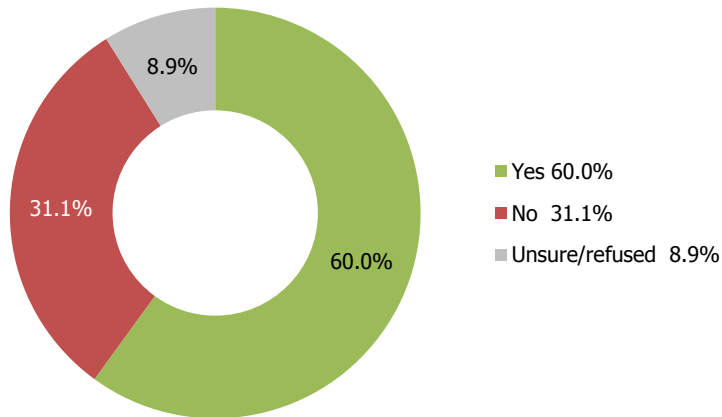
The OC Register is the top newspaper



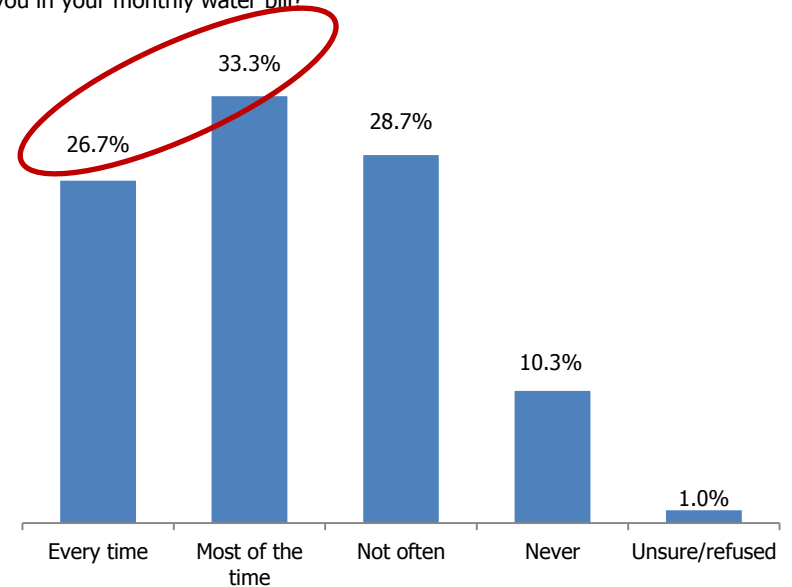
60% RECALL RECEIVING *ON TAP*

60.0% READ IT EVERY TIME OR MOST OF THE TIME

Question: Do you recall receiving On Tap, a bi-monthly newsletter published by the Santa Margarita Water District and delivered to you in your monthly water bill?

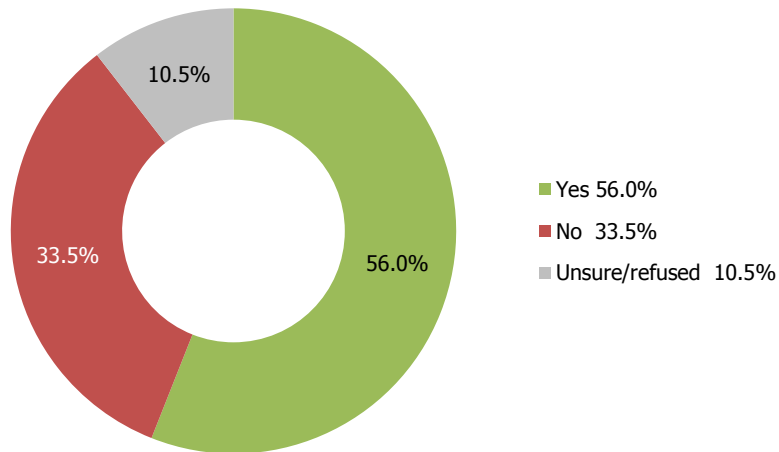


Question: How often would you say that you read On Tap, a bi-monthly newsletter published by the Santa Margarita Water District and delivered to you in your monthly water bill?

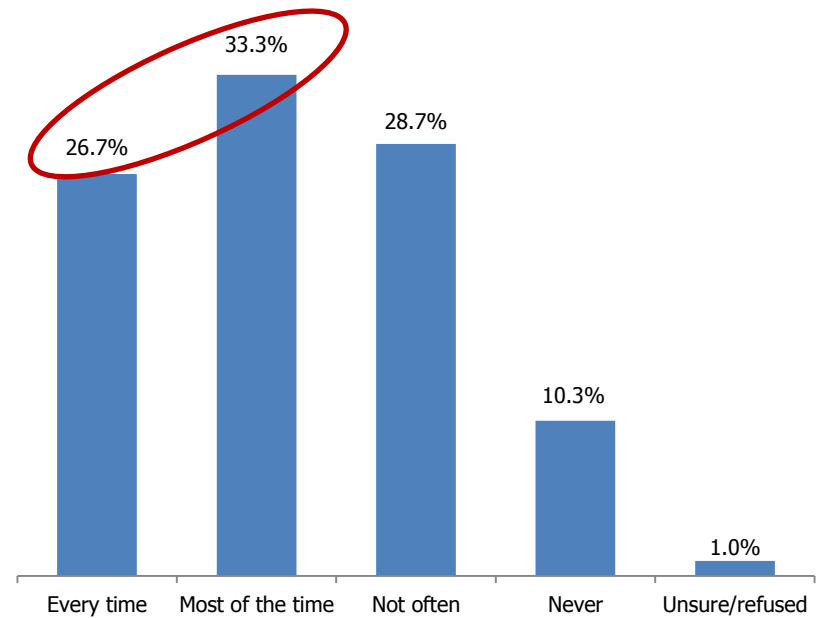


56.0% RECALL RECEIVING MONTHLY BILLING INSERTS
 52.8% READ THEM EVERY TIME OR MOST OF THE TIME

Question: Do you recall receiving bi-monthly SMWD bill inserts that give quick tips and water information snapshots, published by the Santa Margarita Water District and delivered to you in your monthly water bill?

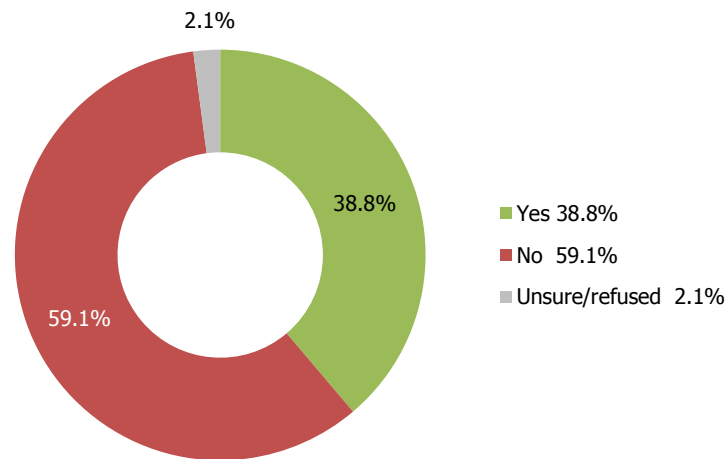


Question: How often would you say that you read the bi-monthly SMWD bill inserts?



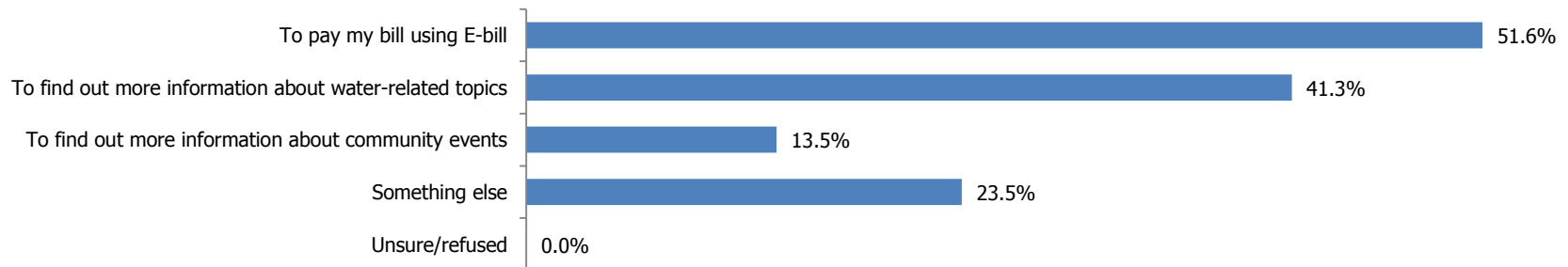
38.8% HAVE VISITED SMWD.COM

Question: Have you ever visited the District's website, smwd.com?

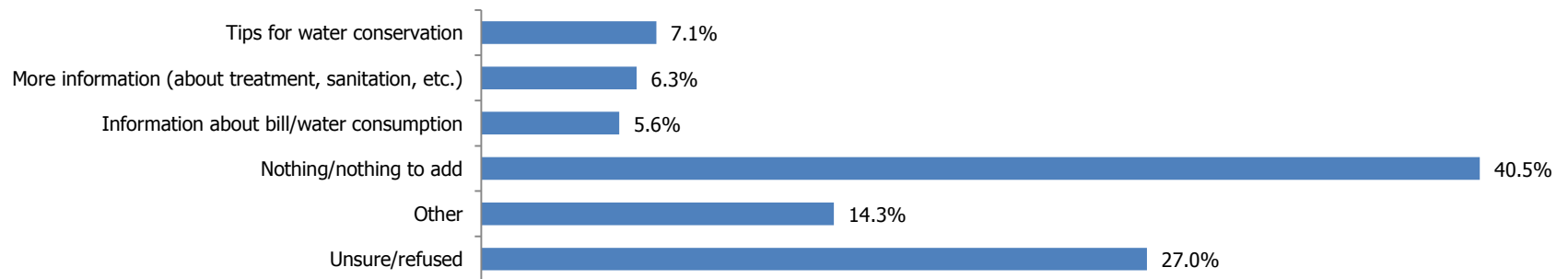


51.6% VISIT THE SITE IN ORDER TO PAY THEIR BILL
40.5% SAY THEY WOULD ADD NOTHING TO THE SITE

Question: Please tell me why you visited the District's website. Choose as many as you like, or nothing at all:

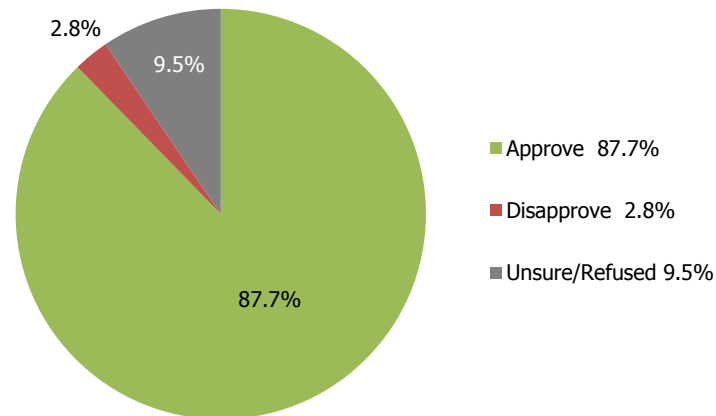


Question: If you could add any information or features to the District's website, what would you like to see?



87.7% APPROVE OF THE JOB SMWD IS DOING

Question: The Santa Margarita Water District, or SMWD, is Orange County's second-largest water district, providing water and wastewater treatment services to more than 155,000 residents and businesses in Mission Viejo, Rancho Santa Margarita, Coto de Caza, Las Flores, Ladera Ranch, and Talega. In general, do you approve or disapprove of the job that the Santa Margarita Water District is doing? [RECORD] [IF APPROVE OR DISAPPROVE>>>] And would you say that you strongly or somewhat (approve/disapprove)?



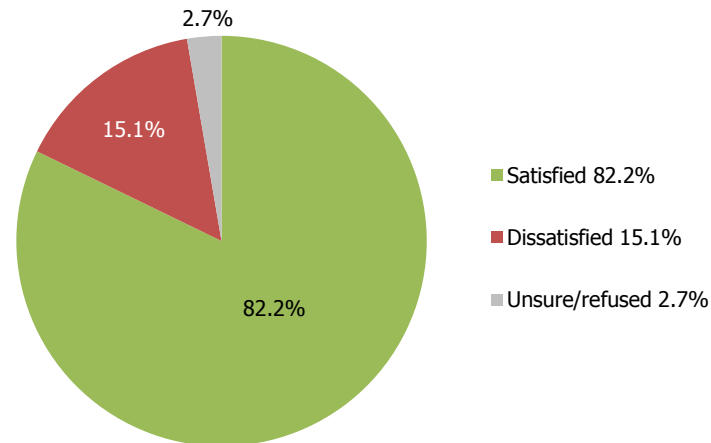
WATER QUALITY AND SAFETY IS THE MOST IMPORTANT FEATURE TO RESPONDENTS

Question: Thinking about the water that comes out of the tap at your home, please tell me which of the following are important to you? Choose as many as you like.



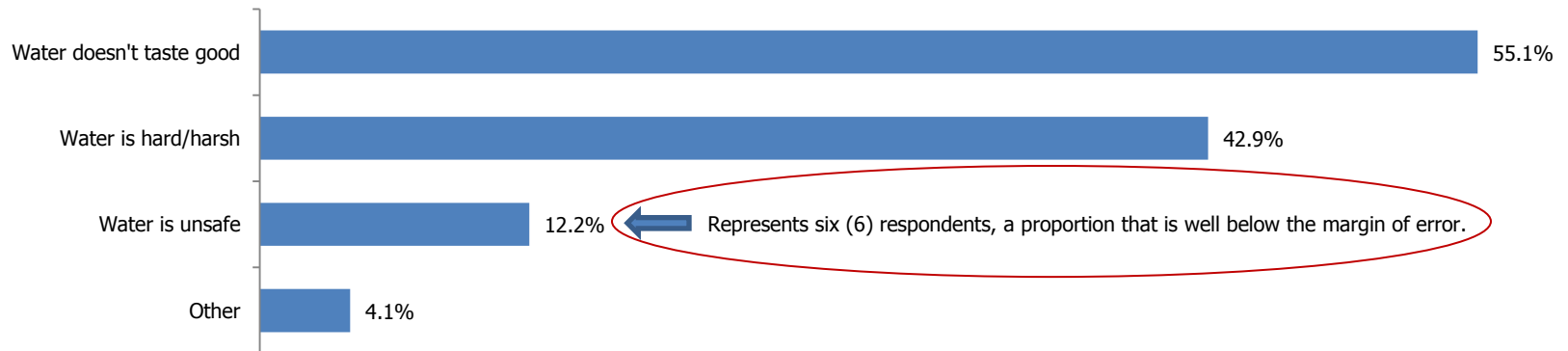
82.2% ARE SATISFIED WITH THE QUALITY OF THEIR DRINKING WATER

Question: Thinking about the quality of drinking water that comes out of the tap at your home, would you say that you are very satisfied, somewhat satisfied, somewhat dissatisfied or very dissatisfied?



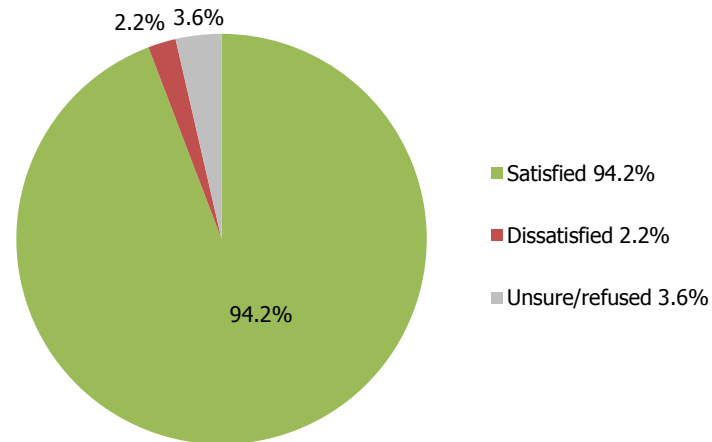
OF THOSE WHO ARE DISSATISFIED (49 RESPONDENTS)
MOST FEEL THAT WAY BECAUSE
THEY FEEL THE WATER DOESN'T TASTE GOOD

Question: [FOLLOW-UP TO THOSE WHO ANSWER DISSATISFIED IN Q20] Why would you say that you are dissatisfied?



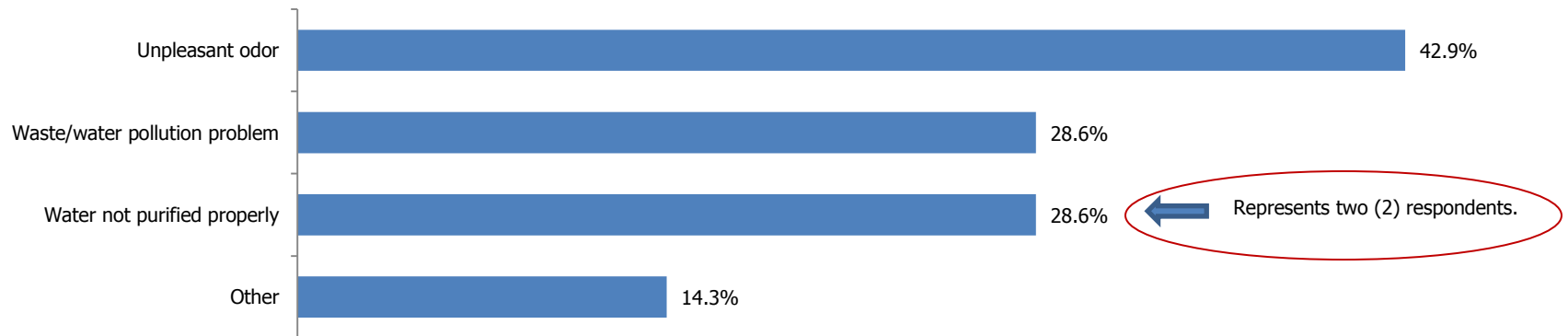
94.2% ARE SATISFIED WITH THEIR WASTEWATER/SEWER SERVICES

Question: Thinking about the wastewater/sewer services provided to your home, would you say that you are very satisfied, somewhat satisfied, somewhat dissatisfied or very dissatisfied?



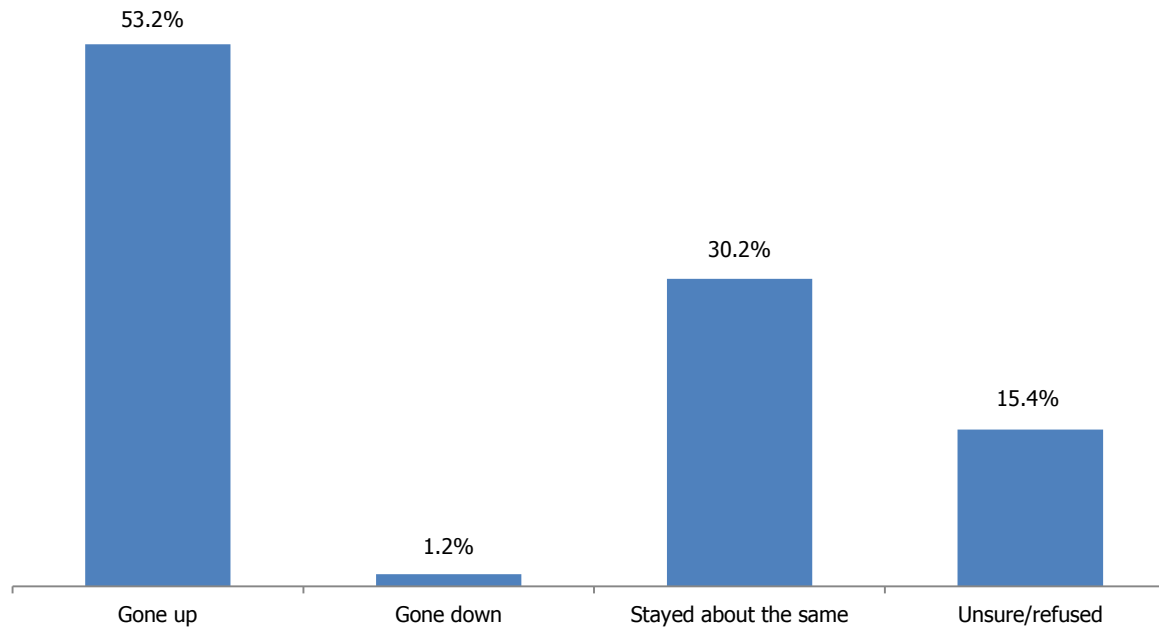
MOST OF THE 7 RESPONDENTS WHO ARE DISSATISFIED ARE BECAUSE OF “UNPLEASANT ODOR”

Question: [FOLLOW-UP TO THOSE WHO ANSWER DISSATISFIED IN Q22] Why would you say that you are dissatisfied?



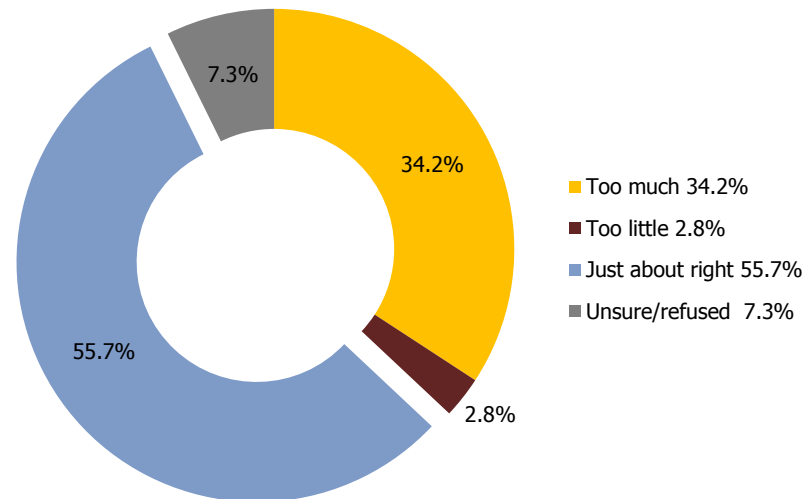
53.2% BELIEVE THEIR WATER RATES HAVE GONE UP OVER THE PAST FIVE YEARS

Question: Thinking about the amount that you pay for the water that you use in your home, would you say that your water rates have gone up, gone down or stayed about the same over the past five years?



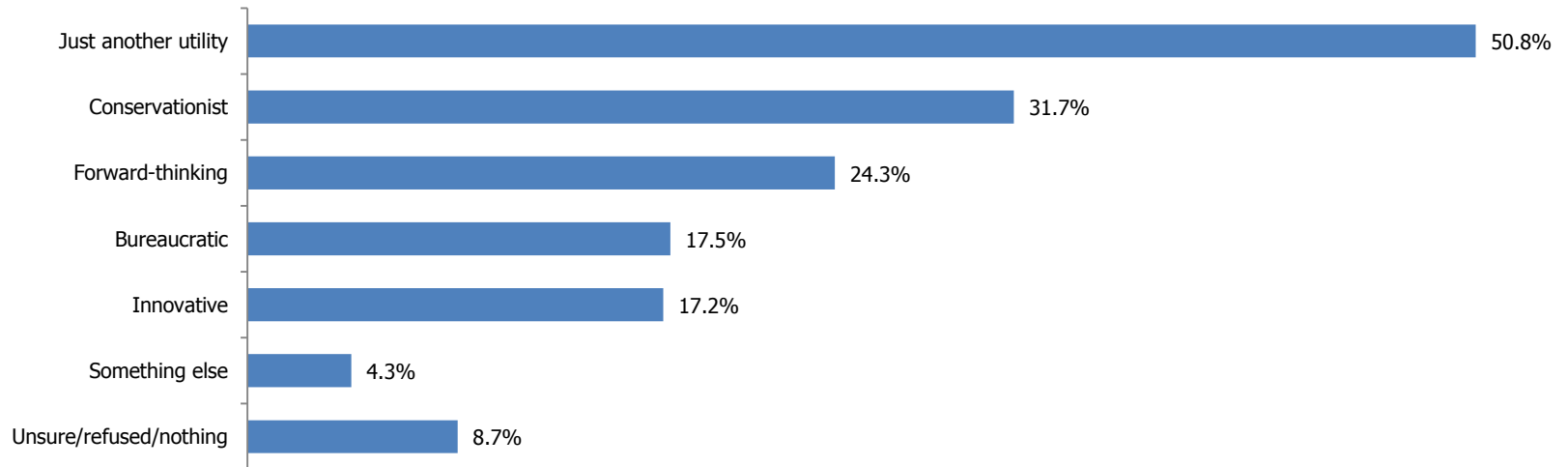
55.7% SAY WHAT THEY PAY FOR WATER IS JUST ABOUT RIGHT

Question: Thinking about the amount that you pay for the water that you use in your home, would you say that you pay too much, too little or just about the right amount? [RECORD] [IF TOO MUCH/LITTLE>>>] And would you say that you pay far too (much/little) or a somewhat too (much/little)?



“JUST ANOTHER UTILITY” IS THE MOST CITED DESCRIPTOR OF SMWD

Question: In general, which of the following descriptions do you think best describes the Santa Margarita Water District? Choose as many as you like, or none at all.

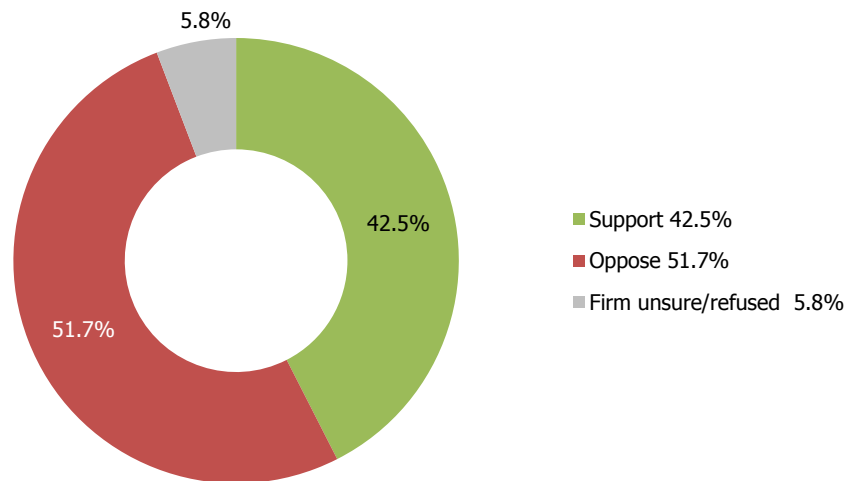


A MAJORITY (51.7%) OPPOSE SMWD RAISING WATER RATES TO OFFSET RISING COSTS

Question: South Orange County has no underground aquifer to supply its water. Instead, SMWD relies upon other water sources, such as groundwater reuse and water recycling programs, to supplement our water supply. But nearly all of the District's water supply is purchased from the Metropolitan Water District of Southern California, which delivers water to the region from Northern California and from the Colorado River. Water from both sources is purified and tested at the Diemer Filtration Plant in Yorba Linda to make sure it meets Federal drinking water standards. Then it is piped to SMWD, and then to you.

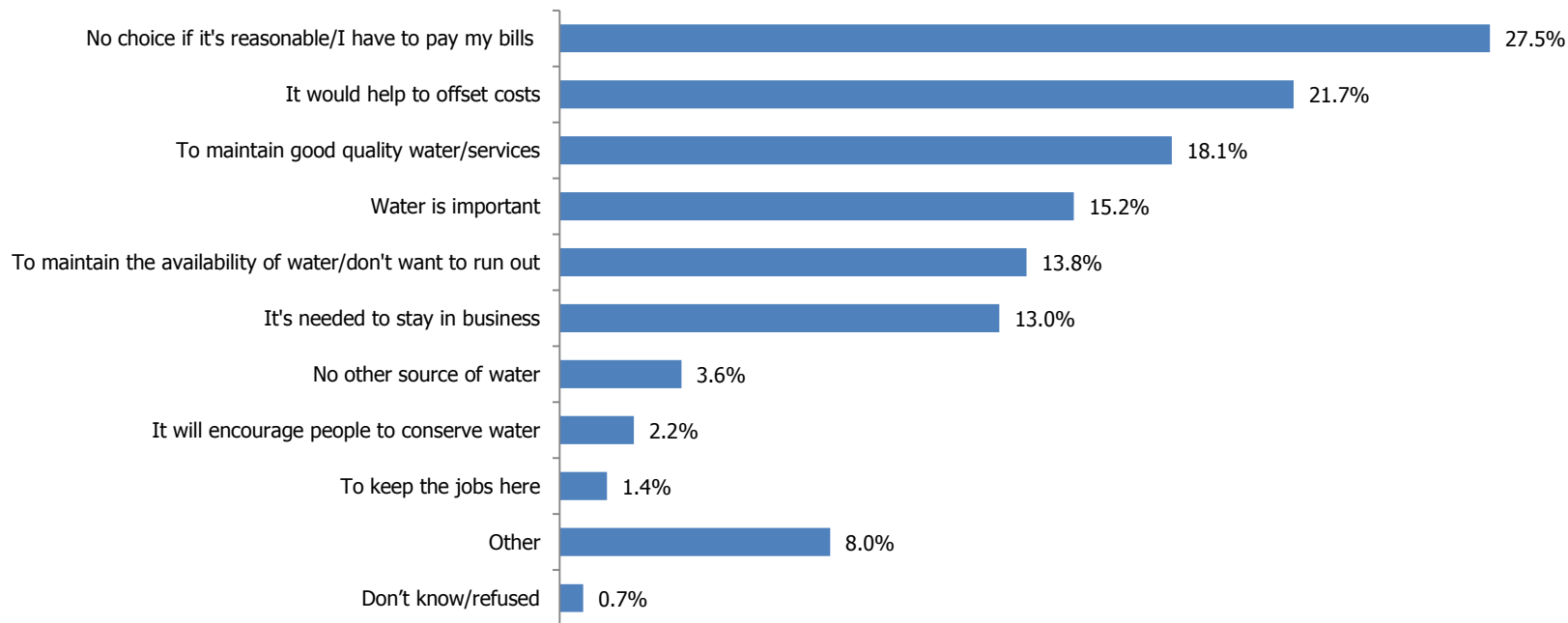
The cost to SMWD for imported water has skyrocketed 64% over the past five years and SMWD has been informed that it will increase by another 31% over the next five years. Labor costs and energy costs have also risen over the past five years. In order to offset these rising costs, SMWD needs to raise water rates, increasing the amount you pay for water every month by 11%, or about \$6.70 per month.

Would you say that you support SMWD raising rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF YES OR NO>>>] And would you say that you definitely or probably (support/oppose)? [IF UNSURE>>>] And would you say that you would lean one way or the other?



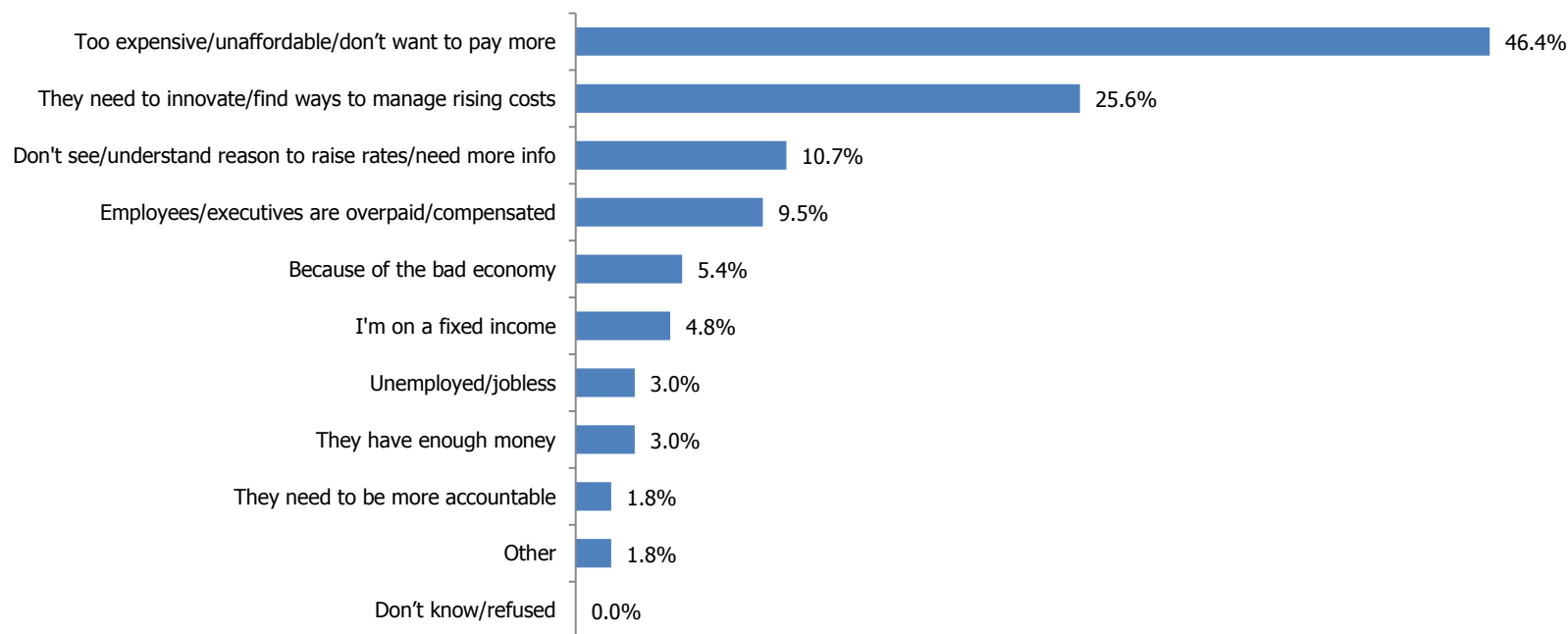
MOST OF THOSE WHO SUPPORT INCREASED RATES DO SO IF THE INCREASE IS “REASONABLE”

Question: [ASK Q28 ONLY OF THOSE WHO ANSWERED “SUPPORT” TO Q27] Thinking specifically, why would you support SMWD raising rates to help offset the rising costs of imported water, labor and energy?



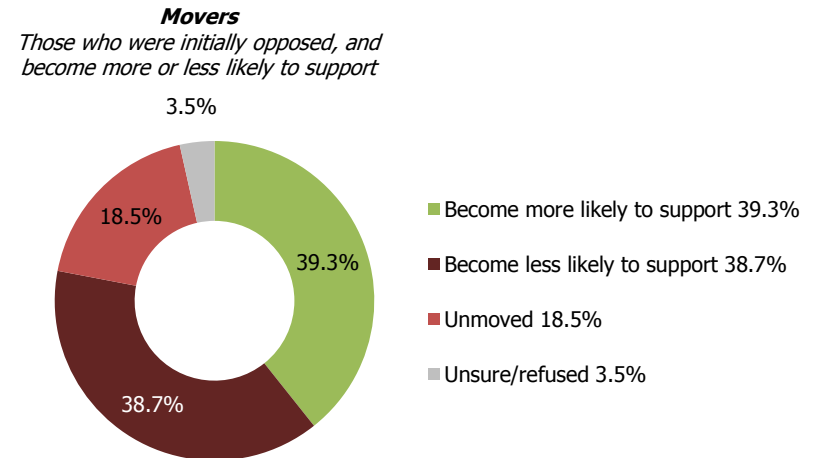
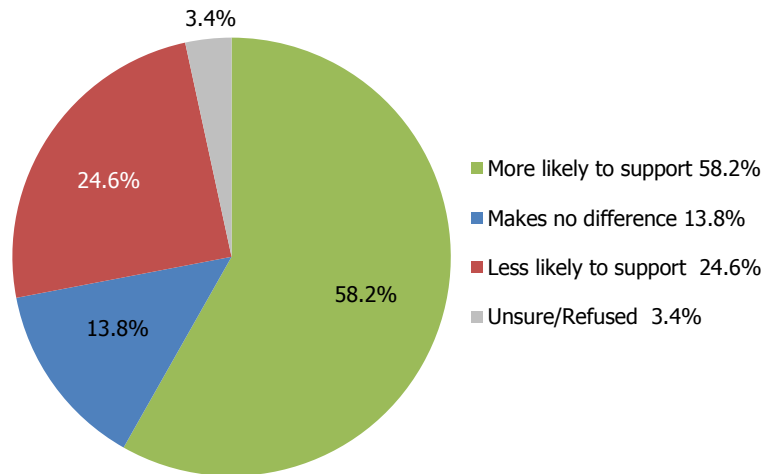
MOST OF THOSE WHO OPPOSE INCREASED RATES DO SO BECAUSE THEY FEEL IT'S TOO EXPENSIVE/UNAFFORDABLE

Question: [ASK Q29 ONLY OF THOSE WHO ANSWERED "OPPOSE" TO Q27] Thinking specifically, why would you oppose SMWD raising rates to help offset the rising costs of imported water, labor and energy?



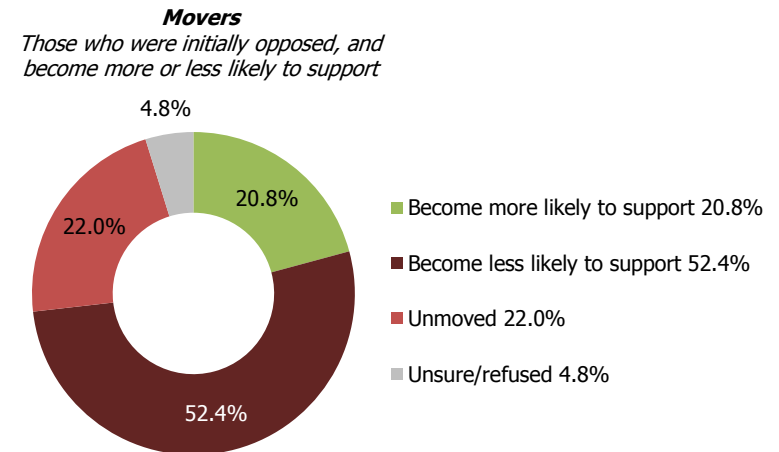
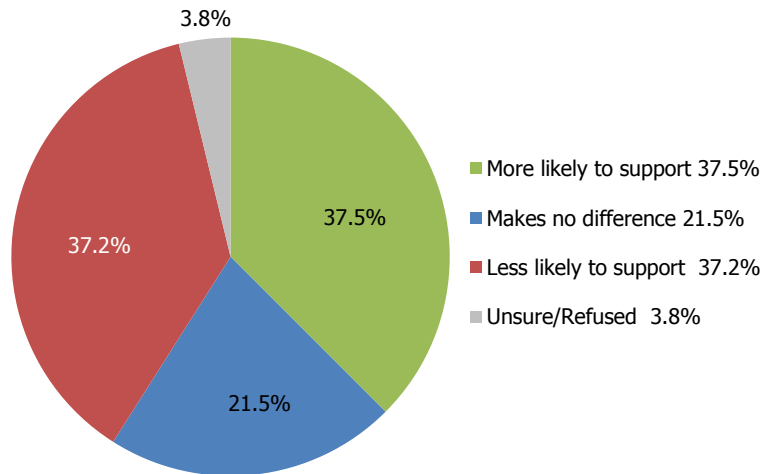
SMWD'S INVESTMENT IN PROJECTS THAT DIVERSIFY REGIONAL WATER SUPPLY AND INCREASE WATER SUPPLY RELIABILITY MAKES A MAJORITY (58.2%) MORE LIKELY TO SUPPORT AN INCREASE

Question: SMWD has invested in projects such as new water reservoirs, desalination, and wastewater treatment that help to diversify South Orange County's water supply and increase water supply reliability for the region. Does knowing this make you more likely or less likely to support SMWD's proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?



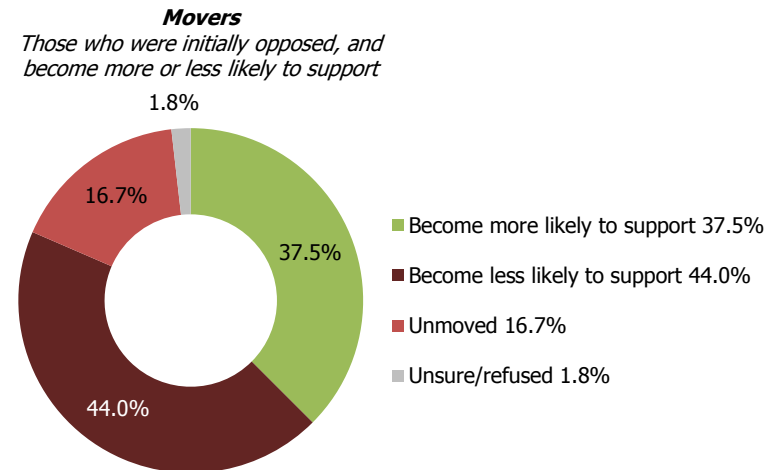
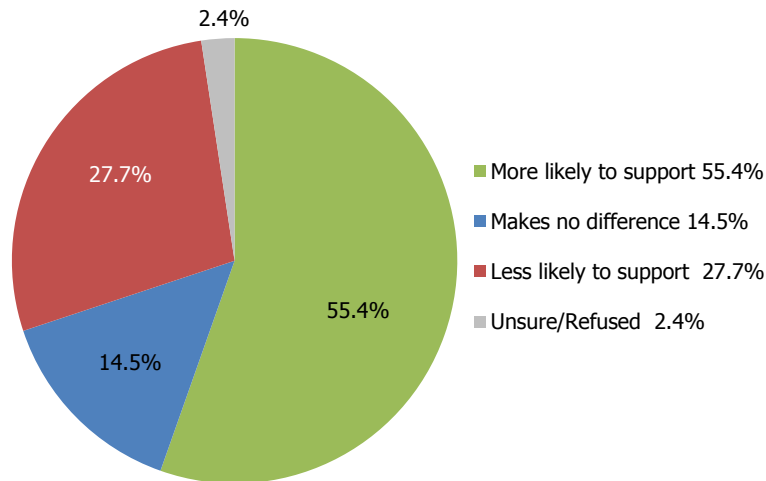
SMWD'S REFINANCING OF BONDS TO SAVE MILLIONS OF DOLLARS SPLITS PUBLIC OPINION

Question: This year, SMWD refinanced bonds that issued in 1999 to fund water and sanitation infrastructure for Talega residents. Refinancing saved 6.9 million dollars for Talega ratepayers – about \$150 per ratepayer every year. Does knowing this make you more likely or less likely to support SMWD's proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?



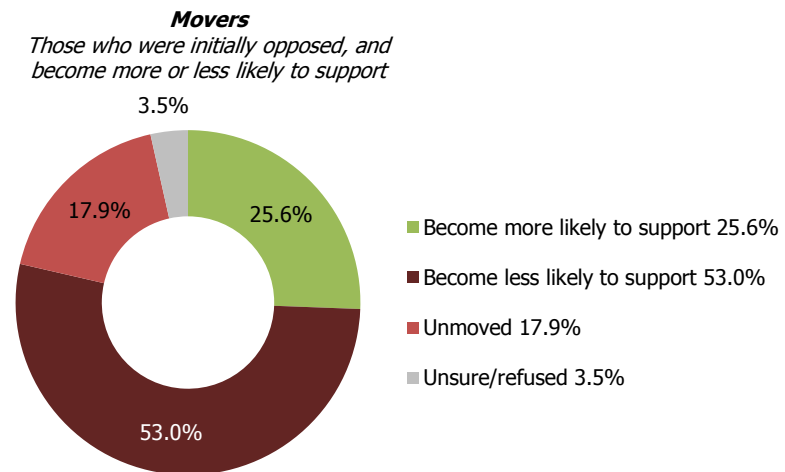
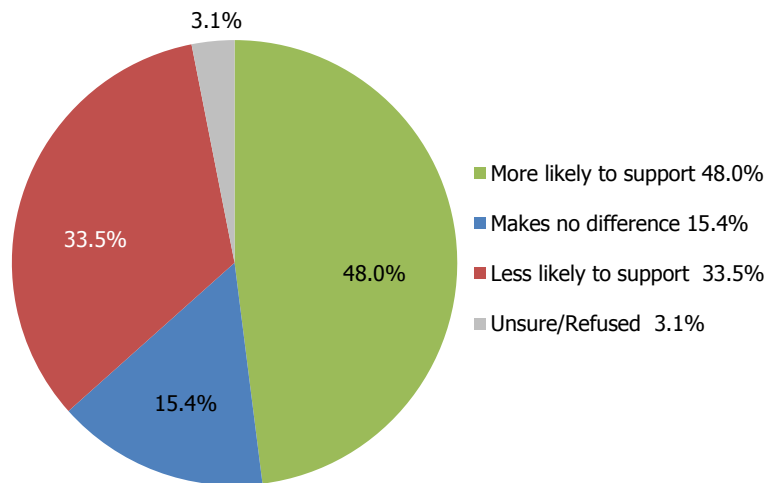
SMWD'S LEAN, EFFICIENT ORGANIZATION MAKES MAKES A MAJORITY (55.4%) MORE LIKELY TO SUPPORT AN INCREASE

Question: Service connections within the District have doubled since 1994, yet SMWD has not increased staffing levels during that time, keeping labor costs contained and maintaining a lean, efficient organization. Does knowing this make you more likely or less likely to support SMWD's proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?



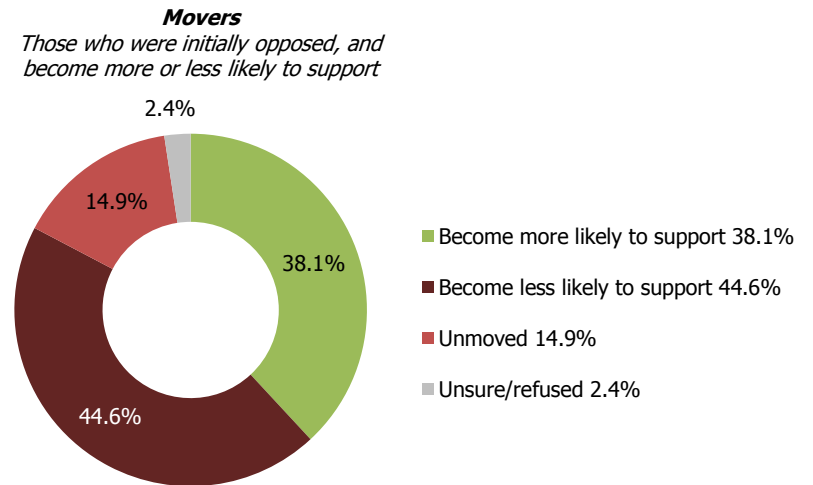
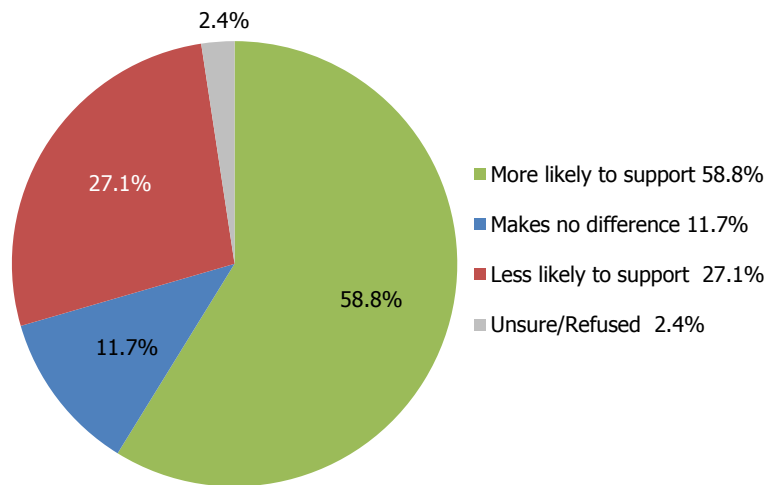
THE FACT THAT SMWD RAISED ITS RATES FOR THE FIRST TIME IN 15 YEARS IN 2009
 MAKES A PLURALITY (48.0%) MORE LIKELY TO SUPPORT AN INCREASE

Question: SMWD increased rates in July, 2009 in response to a steep price increase of imported water. This was the first rate increase at SMWD for nearly 15 years. Does knowing this make you more likely or less likely to support SMWD's proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?



KNOWING THAT SMWD FACES HIGHER ENERGY COSTS THAN OTHER OC DISTRICTS AND HAS INCREASED EFFICIENT ENERGY USE WHILE FACING RAPIDLY RISING ENERGY COSTS MAKES A MAJORITY (58.8%) MORE LIKELY TO SUPPORT AN INCREASE

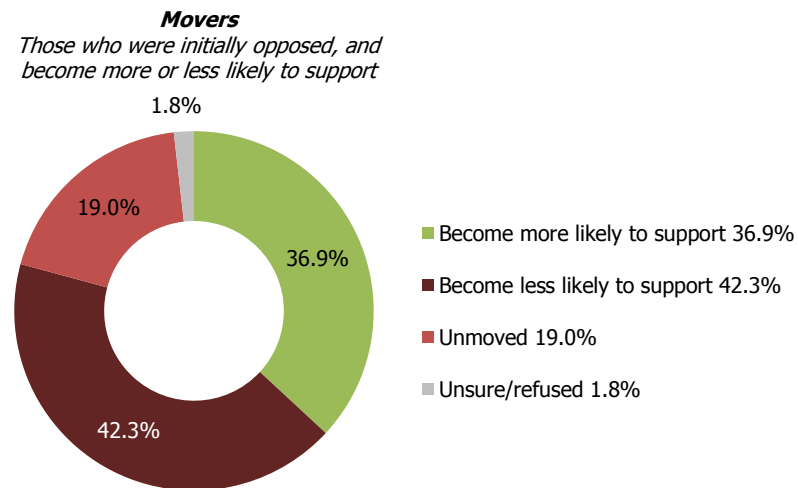
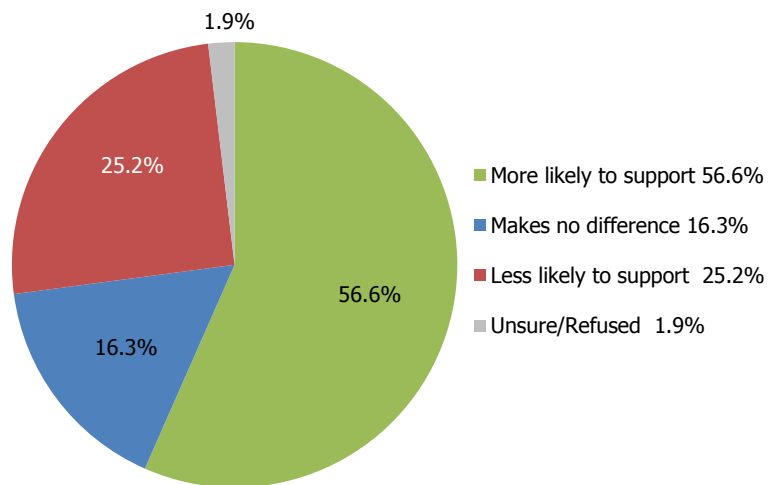
Question: SMWD faces higher energy costs than most other Orange County water districts because hilly terrain in the SMWD’s service area necessitates a lot of pumping. This means the District is greatly affected by any energy cost increases. Energy costs have risen 22% over the past ten years, and are projected to rise more over the next five years. SMWD has already dramatically improved how it efficiently uses energy by retooling to pump during off-peak hours, but it is not enough to offset the increased costs of energy. Does knowing this make you more likely or less likely to support SMWD’s proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?



SMWD'S INVOLVEMENT WITH THE DOVE CANYON CONSERVATION AND WATER RECOVERY PROJECT

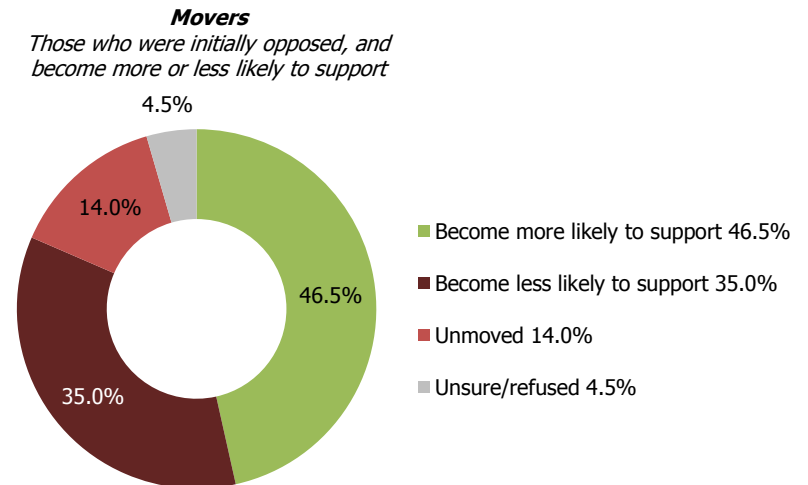
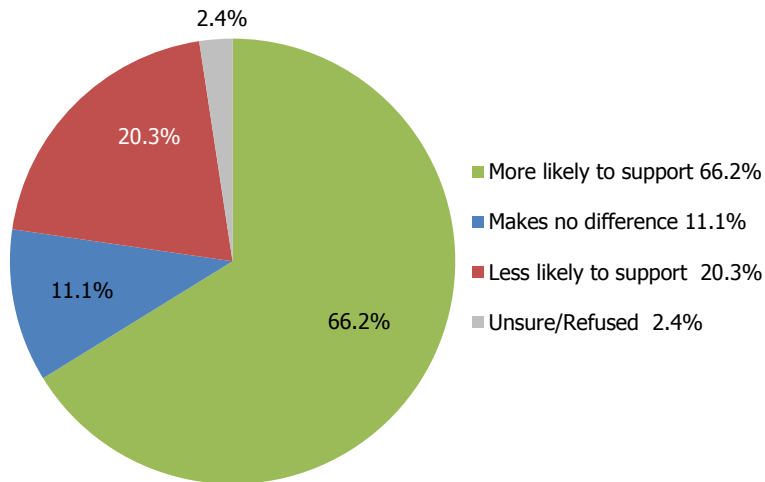
MAKES A MAJORITY (56.6%) MORE LIKELY TO SUPPORT AN INCREASE

Question: SMWD has a long history of responsible environmental stewardship, such as partnering with Trabuco Canyon Water District and Audubon Star Ranch Sanctuary to develop the Dove Canyon Conservation and Water Recovery Project, which captures millions of gallons of urban run-off which is treated and used as recycled water to irrigate nearby parks and green space and restores the natural habitat along Bell Creek, which flows into San Juan Creek and eventually into the ocean. Does knowing this make you more likely or less likely to support SMWD's proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?



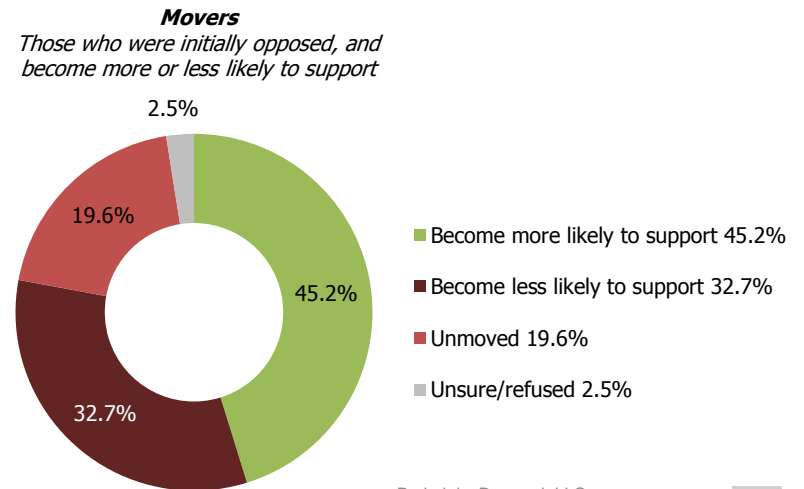
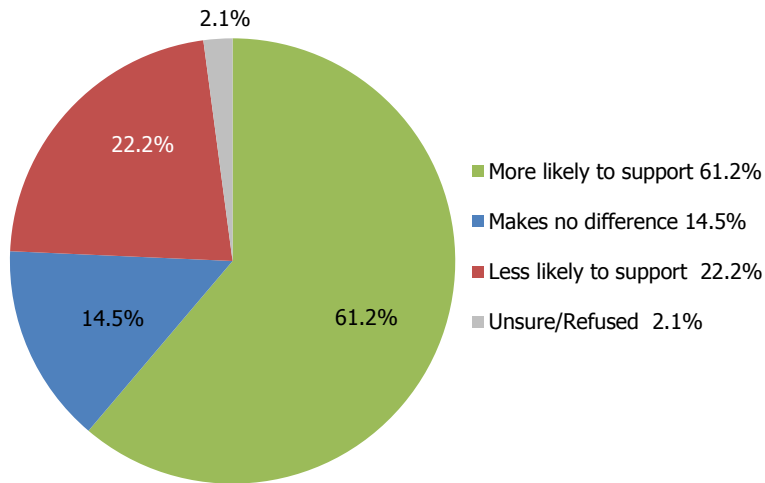
SMWD'S PRIORITIZATION OF THE UPPER CHIQUITA RESERVOIR MAKES A MAJORITY (66.2%) MORE LIKELY TO SUPPORT AN INCREASE

Question: To expand its water resources and increase local reliability, SMWD has prioritized water reliability projects, including the 244-million gallon Upper Chiquita Reservoir Project which will provide drinking water to approximately 500,000 South County residents for one week in the event of an emergency or service disruption. Does knowing this make you more likely or less likely to support SMWD's proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?



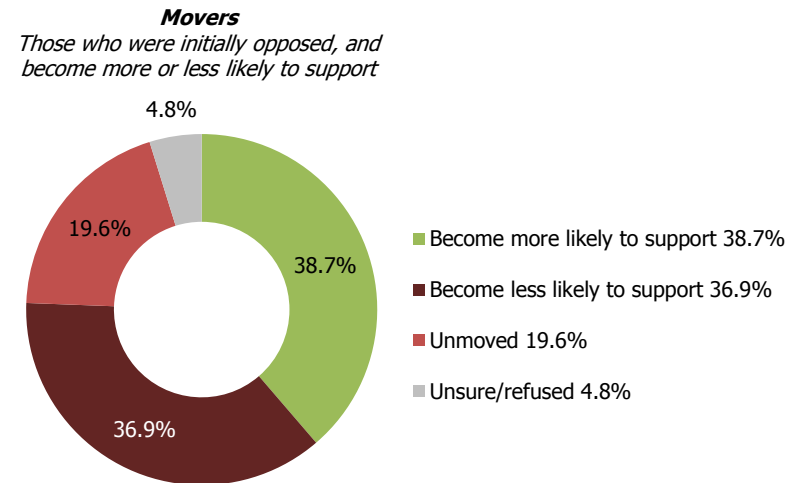
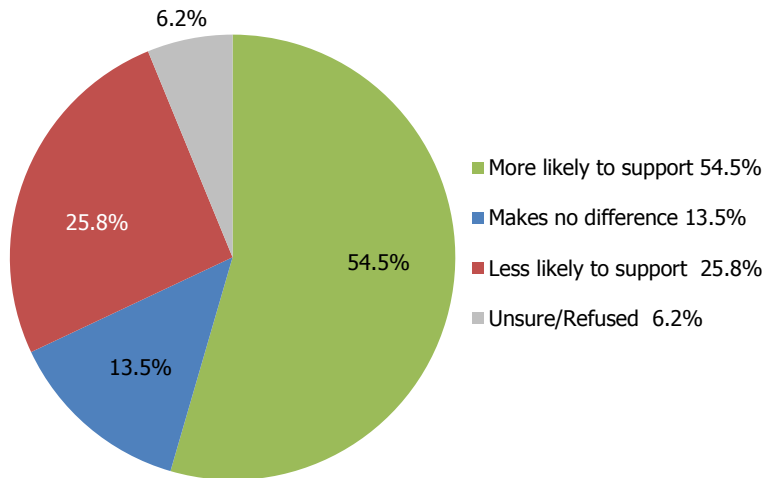
SMWD'S PRIORITIZATION OF THE CADIZ WATER CONSERVATION AND STORAGE PROJECT MAKES A MAJORITY (61.2%) MORE LIKELY TO SUPPORT AN INCREASE

Question: To expand its water resources and increase local reliability, SMWD has prioritized water reliability projects, including partnering with the Cadiz Water Conservation and Storage Project, a groundwater and aquifer system conservation and storage project located in the desert in eastern San Bernardino County that will provide a new drinking water source for South County residents by conserving groundwater that would otherwise be lost to evaporation. Does knowing this make you more likely or less likely to support SMWD's proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?



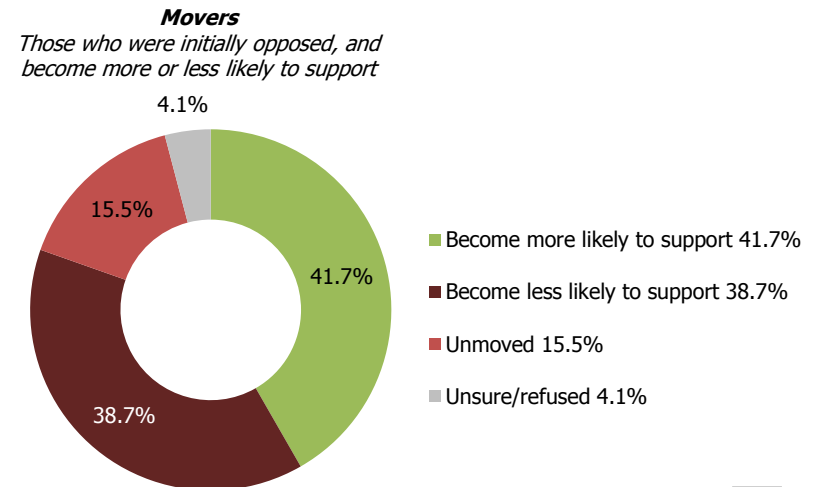
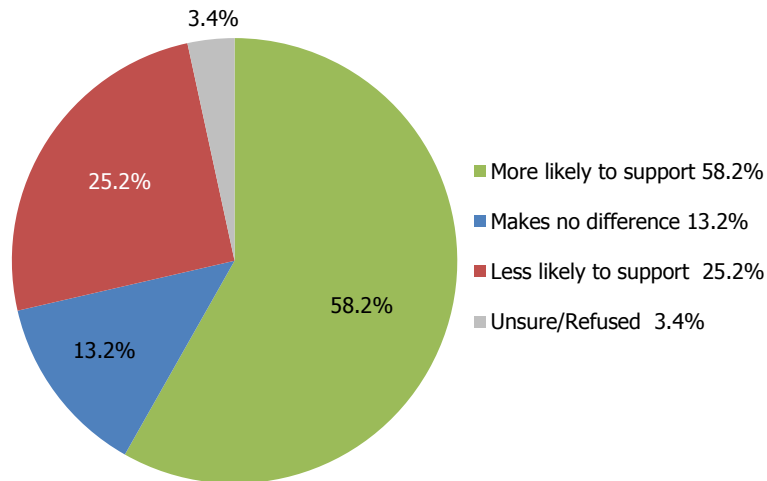
SMWD'S AGREEMENT TO PURCHASE WATER FROM THE PROPOSED POSEIDON DESALINATION PLANT IN HUNTINGTON BEACH MAKES A MAJORITY (54.5%) MORE LIKELY TO SUPPORT AN INCREASE

Question: To expand its water resources and increase local reliability, SMWD has prioritized water reliability projects, including being one of twenty Orange County public water agencies and municipalities that have agreed to purchase water from the proposed Poseidon Desalination Plant in Huntington Beach, which will turn Pacific Ocean seawater into 50 million gallons of drinking water each day. Does knowing this make you more likely or less likely to support SMWD's proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?



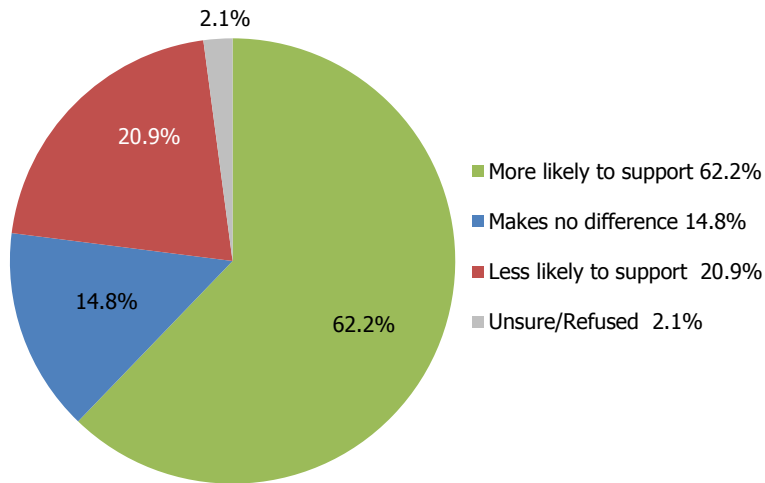
SMWD’S EFFORTS TO OFFSET WATER COSTS BY INNOVATIVE APPROACHES, SUCH AS LEASING DISTRICT LAND FOR CELL TOWERS
 MAKES A MAJORITY (58.2%) MORE LIKELY TO SUPPORT AN INCREASE

Question: SMWD has helped offset water costs in the District by innovative approaches, such as leasing property on District land for cell towers, which generates 1.1 million dollars per year, which helps to keep water rates low. Does knowing this make you more likely or less likely to support SMWD’s proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?

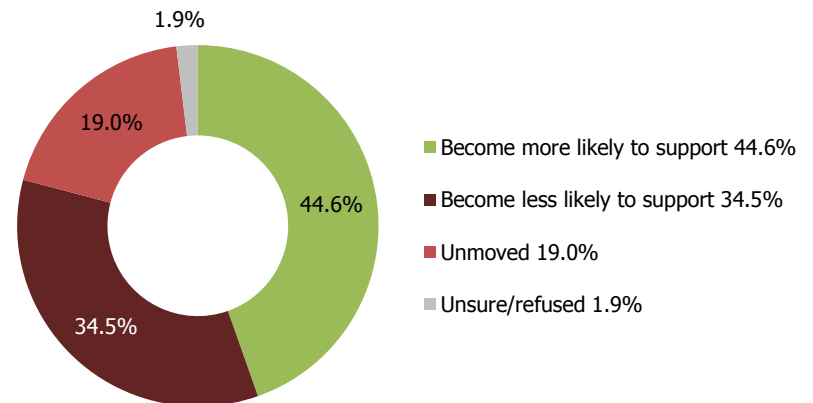


SMWD'S EFFORTS TO COLLECT AND USE RECYCLED WATER MAKES A MAJORITY (62.2%) MORE LIKELY TO SUPPORT AN INCREASE

Question: SMWD is a leader in using recycled water for landscape irrigation and has been successful in obtaining water from additional sources in the local area to supplement supply. The District uses recycled water for irrigation of slopes, parks, golf courses, schools and medians within its service area. Water is recycled at SMWD's three treatment plants, producing over 2.9 billion gallons of recycled water each year for landscape irrigation to homeowner associations and other municipalities within the District. In addition, SMWD collects urban return (runoff) water from Oso Creek, Dove Creek, and Horno Creek to blend with the recycled water as an additional source for irrigation. The use of recycled water and urban return flows from the creeks offset the need to import drinking water from MWD for irrigation. Does knowing this make you more likely or less likely to support SMWD's proposal to raise water rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF MORE LIKELY OR LESS LIKELY>>>] And would you say that you are much (more/less) likely or somewhat (more/less) likely?

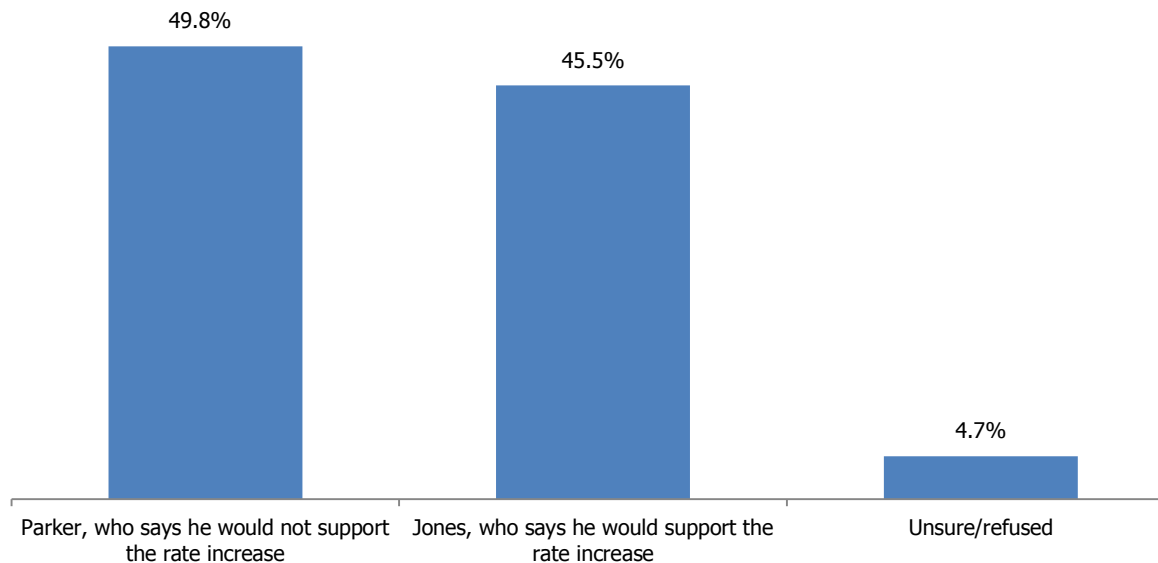


Movers
Those who were initially opposed, and become more or less likely to support



49.8% AGREE WITH PARKER
WHO SAYS HE WOULD NOT SUPPORT THE RATE INCREASE

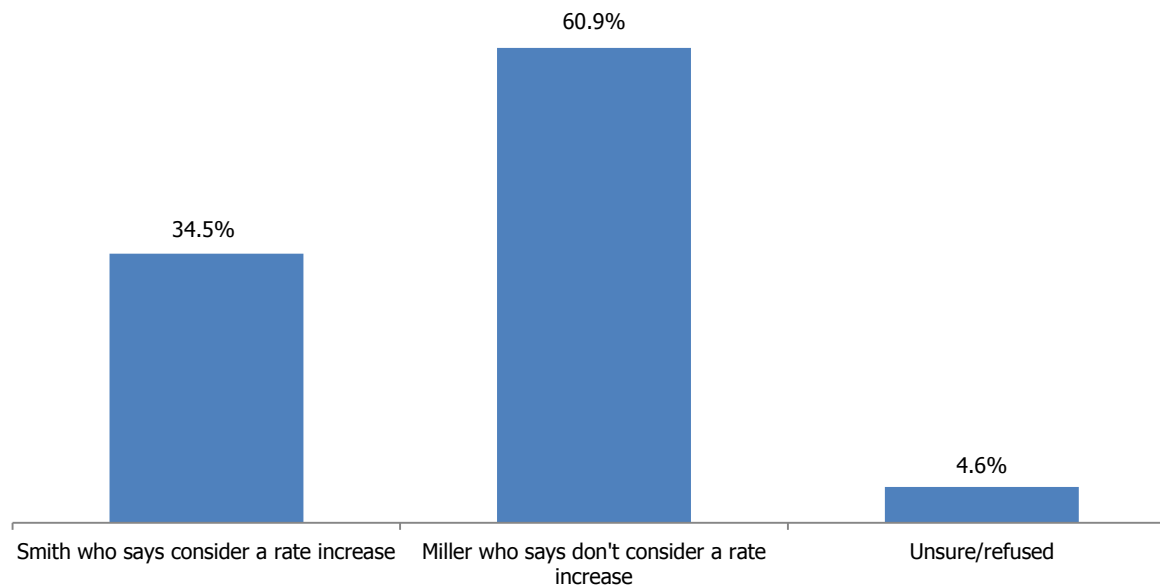
Question: PARKER says: "There is no way I would support SMWD raising rates. The District has \$41 Million in cash reserves and they should use that money to offset fluctuating costs." JONES says: "We should consider supporting a rate increase. The District's cash reserves need to be available for emergency situations such as an earthquake or a major disaster, which could cause tens of millions of dollars in damage that would need immediate repair." With whom do you agree more, PARKER or JONES?



60.9% AGREE WITH MILLER

WHO SAYS THE DISTRICT SHOULD CUT 'NON-ESSENTIAL' SPENDING

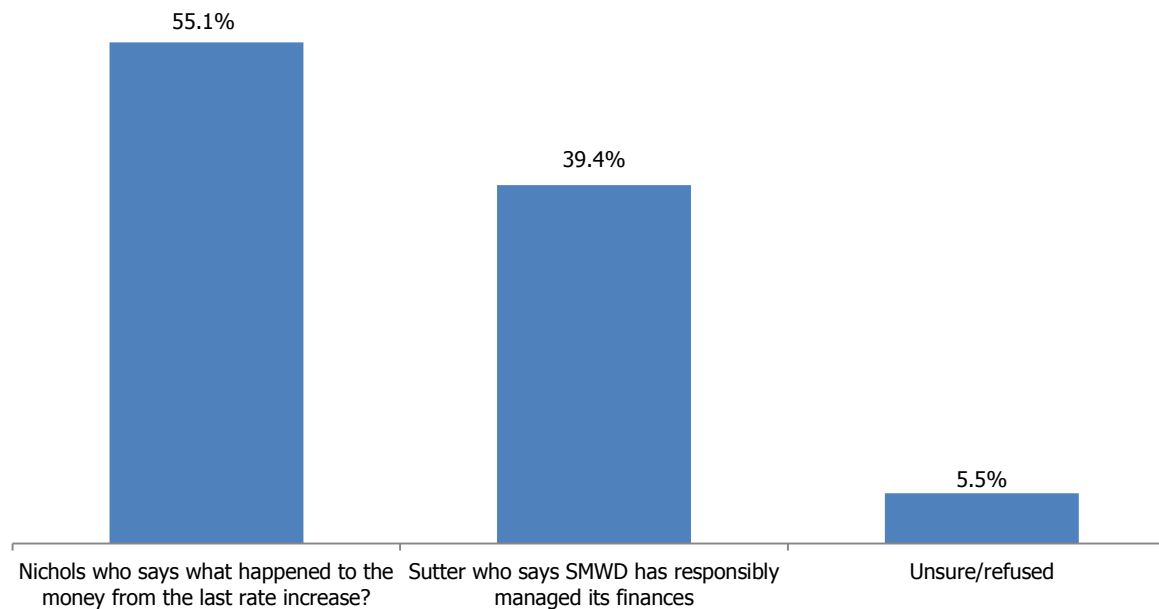
Question: SMITH says: "We need to raise rates to avoid dramatic cuts in funding for water conservation and reliability projects." MILLER says: "We don't need to raise rates – the District needs to make hard decisions on how to cut non-essential spending." With whom do you agree more, SMITH or MILLER?



55.1% AGREE WITH NICHOLS

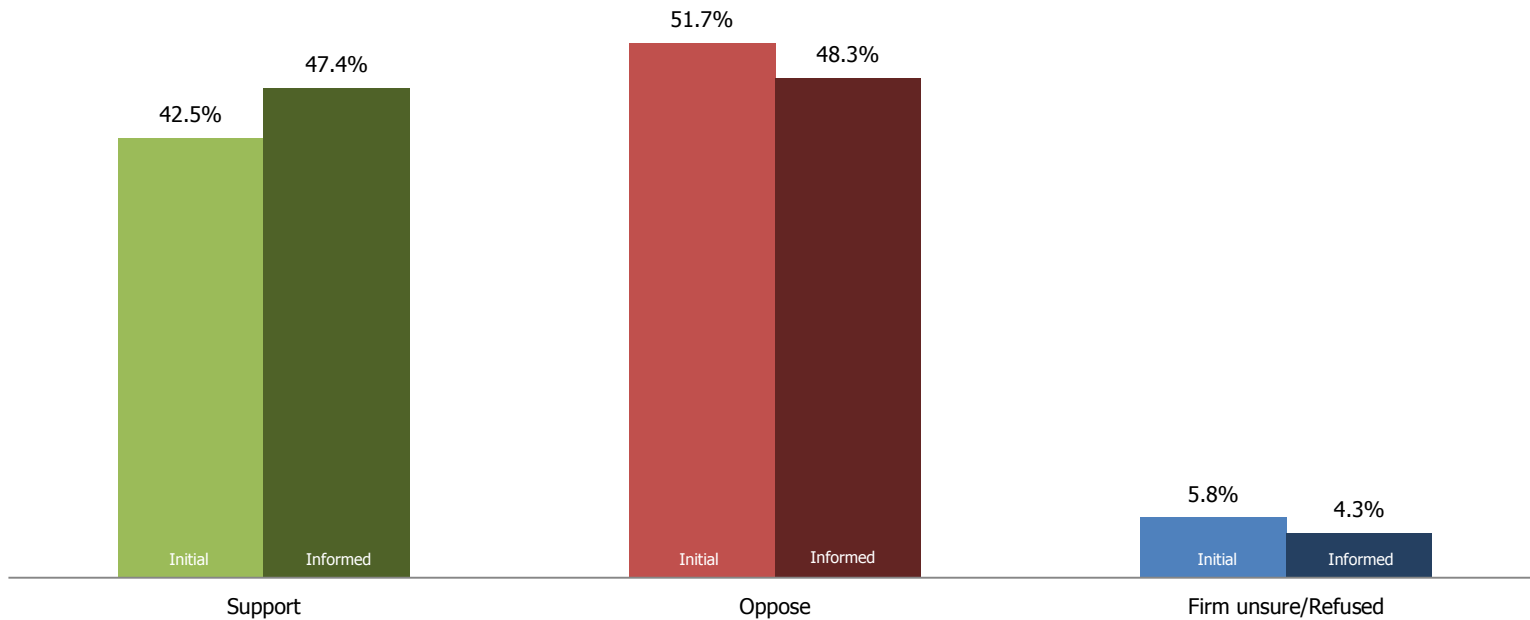
WHO SAYS WHAT HAPPENED TO THE MONEY FROM THE LAST RATE INCREASE?

Question: NICHOLS says: "It doesn't seem fair that SMWD raised rates in 2009 and it is coming to us again with its hand out. Times are tough for all of us. What happened to the revenue that came from the last rate increase?" SUTTER says: "SMWD has responsibly managed its finances. The 2009 rate increase paid for increased water costs through 2010. Water costs are projected to continue climbing for the District, which will have to be paid with raising rates or service charges in order for the District to meet its operating costs and continue to provide reliable service." With whom do you agree more, NICHOLS or SUTTER?

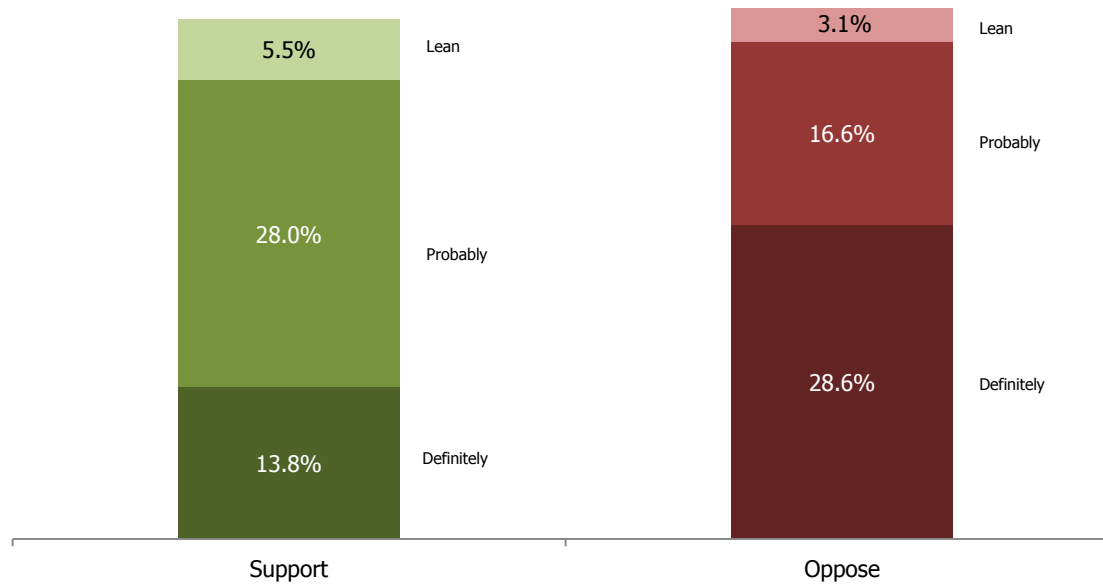


THE MARGIN SEPARATING SUPPORT AND OPPOSITION SHRINKS TO WITHIN THE MARGIN OF ERROR

Question: After hearing all of this, would you say that you support SMWD raising rates to help offset the rising costs of imported water, labor and energy? [RECORD] [IF YES OR NO>>>] And would you say that you definitely or probably (support/oppose?) [IF UNSURE>>>] And would you say that you would lean one way or the other?



THE INTENSITY OF VOTER OPPOSITION IS GREATER THAN THAT OF SUPPORT



SMWD COMMUNITY SURVEY CONCLUSIONS

Our research revealed that “jobs and the economy” is the most important issue to District voters.

Santa Margarita Water District (94.2% awareness; 63.4% favorability) enjoys the highest name recognition and favorability among organizations and projects tested, followed by the Orange County Taxpayers association (59.1% awareness, 20.9% favorability).

District Communications

The District’s publication, *On Tap*, is the number one source for news and information about water, followed by newspapers and local television. 60% of respondents recall receiving *On Tap*, and 60% of those say they read it every time or most of the time.

56% recall receiving monthly billing inserts. Of those, 52.8% read them every time or most of the time.

38.8% have visited the District’s website, smwd.com. Of those, 51.6% did so in order to pay their bill; 41.3% visited to find out more information about water-related topics. A plurality (40.5%) wouldn’t add anything to the site.

District Perception

87.7% approve of the job that SMWD is doing. While significant proportions of respondents used the descriptors “conservationist” and “forward-thinking” to describe SMWD, 50.8% chose the phrase “just another utility.”

Water “quality and safety” is the most important feature to respondents, in terms of the water that comes out of their taps at home. 82.2% are satisfied with the quality of their drinking water. 94.2% are satisfied with their wastewater/sewer services.

While 53.2% believe their water rates have gone up over the past five years, 55.7% say that what they pay for water is just about right.

Raising Water Rates

A majority (51.7%) oppose SMWD raising water rates to offset rising costs. A plurality of those who support the increase, say they do so provided that the increase is “reasonable.” The most pressing reason to oppose the increase is financial, with opponents saying that it is “too expensive”, “unaffordable” or “we can’t pay more.”

We tested a number of arguments regarding a proposed rate increase. The following were the three most effective, listed in descending order:

1. SMWD has prioritized water reliability projects including the Upper Chiquita Reservoir Project (66.2% became more likely to support an increase)
2. SMWD is a leader in using recycled water for landscape irrigation and has been successful in obtaining water from additional sources in the local area to supplement supply. (62.2% became more likely to support an increase.)
3. To expand its water resources and increase local reliability, SMWD has prioritized water reliability projects, including partnering with the Cadiz Water Conservation and Storage Project (61.2% became more likely to support an increase.)

The above arguments can be considered “mover” arguments that made a plurality of respondents who initially oppose the rate increase become more likely to support it. Their effectiveness is listed in descending order:

1. SMWD investment in Upper Chiquita Reservoir (49.4% of oppose become more likely to support)
2. SMWD partnering with Cadiz (45.2% of oppose became more likely to support)
3. SMWD’s leadership in using recycled water (44.6% of oppose became more likely to support)

How the District should spend cash reserves presents a point of contention for respondents. A plurality (49.8%) of respondents felt that the District’s cash reserves should be used to offset fluctuating costs, while 45.5% felt cash reserves need to be available for emergency situations.

Respondents appear to prefer the District cut “non-essential” spending rather than raise rates to continue water conservation and water reliability projects.

55.1% want to know what happened to the revenue that came from the last increase, and were unsatisfied with the explanation provided.

Ultimately, support for the rate increase rises while opposition decreases to a point where they are statistically tied. However, it is important to note that the intensity of opposition is higher (28.6% definitely oppose) than the intensity of support (13.8% definitely support).

SMWD COMMUNITY SURVEY RECOMMENDATIONS

Recommendations

It is unsurprising that, given economic conditions, voter support for a rate increase is mixed. However, when presented with evidence of the District's efforts to provide reliability, conserve, recycle and re-use water, coupled with innovative approaches that generate new revenues to offset rising water costs (such as leasing land for cell towers), receptivity to the idea increases. It seems unlikely that rate increases can achieve overwhelming support throughout the District.

However, consistent communication of the top three, key messages over time may engender majority acceptance.