

LELAND MEADOW WATER DISTRICT

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GENERAL MANAGER UPDATE TO THE BOARD – 12/14/2018

Dear Board members,

Since our September 1, 2018 meeting progress in many areas has been made and new information has become available.

UPCOMING MEETINGS: PLEASE NOTE – BECAUSE WE HAVE A LOT OF INFORMATION FOR THE BOARD AND CUSTOMERS TO REVIEW, WE WILL HAVE SPECIAL MEETINGS THAT WILL BE CONDUCTED BY CONFERENCE CALL IN ADDITION TO OUR MEMORIAL DAY MEETING AT LELAND MEADOW IN MAY. CUSTOMERS ARE ENCOURAGED TO ATTEND!

WATCH FOR MEETING NOTICES AND BOARD PACKAGES IN THE COMING WEEKS.

SPECIAL MEETING: JANUARY 2, 2019 AT 2 PM VIA CONFERENCE CALL

LMWD Conformance with By-Laws: As we develop a long-term plan for maintenance, reliability and financial solvency for LMWD, one of the important items that Amy Wolfe and I have reviewed is our Leland Meadow Water District By-Laws which were adopted and recorded in Tuolumne County in 1965. We must ensure we are complying with our By-Laws, local, state and federal laws. Toward that end, the January 2, 2019 Special Meeting of the LMWD Board of Directors will be to discuss and vote upon Resolutions as follows and other business that may arise:

- Vote by Mail (to ensure participation by all Customers, not just those that can be present)
- Election to be held March 5, 2019 (required in By-Laws)
- Location of District Office (a formality)
- Authorize borrowing from Wells Fargo Bank with \$15,000 credit line if District funds are not sufficient to meet unexpected costs.
- Authorize hiring Bartle Wells to perform a Rate Study as required by California Proposition 218

SPECIAL MEETING: JANUARY 30, 2019 AT 2 PM VIA CONFERENCE CALL

DEEP DIVE WORKSHOP: Presentation of detailed information described below to Board Members and Customers and other business that may arise.

SPECIAL MEETING: MARCH 5, 2019 AT 2 PM VIA CONFERENCE CALL

ELECTION TABULATIONS to tabulate ballots and other business that may arise

REGULAR BOARD MEETING: MAY 25, 2019 at 10 AM AT LELAND MEADOW LAKE HOUSE

1. REGULAR BOARD MEETING

2. PUBLIC HEARING ON PROPOSED RATE INCREASE OR SPECIAL ASSESSMENT

GENERAL MANAGER UPDATE TO BOARD DECEMBER 14, 2018

A. DEEP DIVE TOPIC: REFINE REPLACEMENT COST ESTIMATES AND TIME FORECASTS FOR MAJOR WATER AND SEWER SYSTEM COMPONENTS USING BEST PRACTICES:

On October 29, 2018, I sent a detailed report to all Customers of the inspection performed by Nor Cal Pipeline and a second report sent to all Customers on a follow-up inspection done by Robertson Plumbing on November 06, 2018. We had planned to perform additional work that was outlined in the November 06 report but, unfortunately, our contractor was not available due to their support of the forest fires up north as well as a weather change. These repairs will now be scheduled in 2019.

Based on the information that was reported and documented during both inspections and my personal conclusions after carefully reviewing the videos and photographs several times, I concur with the recommendations of Nor Cal Pipeline that our 6" and 8" main sewer lines need to be scheduled for replacement sooner than the 20 to 25 year timeframe estimated in the Reserve Study performed by Association Reserves.

As our water lines are of the same material and age, we must plan to inspect these lines and should expect increased maintenance similar to the sewer lines and replacement sooner than the 20 to 25 year timeframe estimated in the Reserve Study performed by Association Reserves.

B. REVISED 2019 FINANCIAL PLAN (Attachment 1):

Based on the above, I have prepared a **Revised Financial Plan for 2019**, which includes additional maintenance items that were recommended in the above reports. The Revised Financial Plan for 2019 also calls for additional inspections to investigate areas that were not able to be inspected in October. The Revised Financial Plan for 2019 also includes costs to prepare a Rate Study (described below). Obviously the revised 2019 Plan shows a shortfall in funds which must be addressed with an increase to the inflow of funds.

C. LONG TERM FINANCIAL PLANNING (Attachment 2):

Amy Wolfe and I have been hard at work developing long term maintenance and financial plans for the district. Working with Association Reserves' study information, qualified inspection vendors and contractors, I have prepared a long term schedule of maintenance and replacements for our Water and Sewer Systems. The **Long Term Financial Plan Assumptions and Approach** outlines the detailed assumptions included in the financial plan.

Long Term Operating Expense Forecast: I have also prepared a **10 Year Operating Expense Forecast** based on the most current information related to the condition of our sewer lines and includes video inspection of and expected maintenance on our water lines.

Long Range Capital Plan: I have also prepared a **25 Year Long Range Capital Plan**. This plan is based on the Association Reserve Study modified for the accelerated replacement of sewer and water lines.

The 2019 Revised Financial Plan, 10 Year Operating Expense Forecast and Long Range Capital Plan are summarized in two Scenarios based on different assumptions to rates/inflows. NOTE: THESE SCENARIOS ARE CALCULATIONS AND ARE NOT RATE STUDIES:

- **Scenario #1 Financial Condition with No Rate Increase.** Clearly, this schedule shows that our District will not be able to meet our financial obligations and maintain reliable water and sewer service if we maintain the same rate. We need to increase the inflow of funds in 2019.
- **Scenario #2 Financial Calculation to Provide Sufficient Funds** calculates the increased funds that will be necessary to fund the long term financial requirements. A \$100 monthly fee increase as of July 1, 2019 with a 2.25% annual increase provides adequate funding to support the financial requirements of the District.

This will be a topic that will be covered in the Special Meeting Deep Dive Workshop January 30, 2019.

D. Deep Dive Topic: Working with experts in small water/sewer districts, establish what methods are available to fund future large capital projects.

Potential to Borrow Funds:

I informed the Board on November 5, 2018 that we are approved for a \$15,000 line of credit with Wells Fargo Bank that will provide available funds for shortfalls.

In addition, Amy Wolfe has worked with our attorneys and financial advisors to identify and investigate the availability of alternative forms of financing. These sources include District Issued Bonds, bank lending, California Clean Water State Revolving Fund Loans, USDA Rural Water & Waste Disposal Loan & Grant Program, and private lenders. Except for private lenders, these types of loans are geared toward large projects (not small shortfalls) and have large upfront costs related to bond rating, engineering reports, environmental reviews, and legal counsel fees. **While these loans for large projects may be available when we are ready to initiate a large project, each and every one requires that the borrower's existing rate structure unequivocally demonstrates the ability to repay.**

More information on the results of Amy's investigations will be presented in the Special Meeting Deep Dive Workshop January 30, 2019.

E. Deep Dive Topic: Working with experts in small water/sewer districts, evaluate and analyze our LMWD costs and usage and determine what, if any usage fees should be implemented.

- evaluate what costs are variable and related to usage and what costs are fixed
- evaluate Customer usage once we have at least a full year of usage data
- evaluate what additional regulations or costs may be involved if we add a usage fee

We examined all of the operating costs of the LMWD to determine which costs vary with usage. After careful review, we have determined that the only cost that varies directly with usage is the electricity costs from PG&E to run the well pump. Leland Meadows gets its water from a well that has continuously met our needs for many years and it produces approximately 25 gallons per minute which should be more than adequate to meet the future needs of our community. Water is pumped from our well up the hill near the Snowplay to our water tank. The electricity usage cost to run the pump averages about \$100 per month or \$1200 per year (\$1,173 for the period 11/1/17 through 10/31/18).

Our sewer treatment plant's electrical usage arises from the electricity to run the aerators which is not directly related to usage. The balance of our operating expenses and capital costs do not vary directly with usage.

Many Water Districts that incorporate a usage fee actually pay for their water source by the gallon or cubic foot unit. LMWD is fortunate in that we have water rights that allow us water at no cost per gallon.

We now have a year of usage information from meters. One large benefit of meters so far has been to alert Customers to leaks in their condos or homes based on unexpected high usage in a given month. Running toilets, leaking hot water heaters, and dripping faucets have been found and repaired shortly after meters were read. Prior to the installation of meters, these types of issues would have continued longer and caused much more wasted water. These issues happened both with full time residents and those who were not even home.

We also observe large variability between months with some periods water usage nearly 3 times that of another. This variability is expected since our District is composed mostly of second homes for our Customers. Poor air quality due to nearby fires, low snowfall in the winter, and mild spring can all contribute to variability for Customers using their homes.

We have investigated usage components in other small districts and discussed usage fee components with rate study experts. With only 16 months of meter data, it is not advised to incorporate a usage component when variability can be so great until a baseline can be established with confidence. In low usage months or during sustained low usage periods, the District could find ourselves short on revenues.

Besides the fact that we do not have sufficient data to incorporate a usage fee at this time, there would be additional costs and administrative burden involved to do so. To convert to a rate structure that is partially based on usage, we would need to include additional analysis in our upcoming Rate

Study which would add engineering costs. In addition, if we converted to a rate structure with both a fixed and variable component we would add monthly administrative costs as a result of extra hours to perform the additional duties. Incremental hours would be required to take meter readings on a specific schedule, convert meter readings to calculate the usage component, prepare invoices for 60 Customers (that are now a flat rate and sent primarily through email), distribute invoices, reconcile payments against invoices, and manage credits and debits to Customers who paid incorrectly. It is likely that software would need to be purchased and maintained. Keep in mind that Marvin now manually performs billing and accounts receivable duties partially at a billing rate of \$30 / hour and partially on a volunteer basis. Within the next two years when General Manager duties transition to someone else, the extra man-hours will not be as inexpensive.

More information will be presented at the Special Meeting Deep Dive Workshop January 30, 2019. In the meantime, I recommend that incorporating usage fees into the rate structure be deferred for 5 years until we have additional meter data over a longer time period.

F. Deep Dive Topic: Board return to Customers when analysis and evaluation complete with recommended proposal for rate adjustments; expect to accomplish in 6 – 9 months.

LMWD To Perform Rate Study: Per California Proposition 218, any recommendation for rate increase or special assessment for a water district must include a Rate Study certified by a licensed Engineer. We have contacted several qualified engineers and have received a proposal from Bartle & Wells, a qualified engineer who has proposed to perform the Rate Study at a reasonable price **Attachment 3**. This Rate Study will become the basis of the proposal for rate adjustment or special assessment that will be presented to Customers in the coming months.

I will be sharing this update with Customers in the next few days. Let me know if you have any questions.

Marvin