

Diamond A Mutual Water Company

Special Report To Board

- **Proposed Water Rate Changes**
- **2020 PROPOSED BUDGET**
- **10 YR CAPITAL FORECAST**

December 9, 2019

OVERVIEW – WATER RATES

- **Propose INCREASE in Water Rates and DECREASE in Quarterly M & I Account**
 - All Water Rates to increase by approx 65%
 - Tiered structure to remain
 - Tier 4 will be collapsed into Tier 3
 - Quarterly M & I to decrease from current \$200/qtr to \$160/qtr (\$40/qtr decrease)
 - **Average cost per household to increase approximately \$35 / qtr**
 - Rate increase will be most severe for the high water users (>50k gals/qtr)

RECOMMENDED RATES

		<i>Proposed</i>	Current	%
		<i>2020</i>	2019	Increase
Tier 1	0-50k gals	\$5.00	\$3.00	67%
Tier 2	50k -100k gals	\$6.25	\$3.75	67%
Tier 3	> 100k gals	\$9.50	\$5.75	65%
Quarterly Maint & Improve		\$160.00	\$200.00	-20%

2019 WATER RATE COMPARISON

- George Ranch
- Water usage:
 - First 100,000 gallons \$5 per 1,000 gallons
 - Over 100,000 gallons \$7 per 1,000 gallons
- \$100 per quarter as a fixed fee
- No change in fee structure planned. It meets operating and reserve requirements.

2019 WATER RATE COMPARISON

- Mission Highlands
- Water Usage:
 - \$.0050 per gallon (\$5.00/1,000gal)
 - **No tier charges**
- Quarterly billings Service charge: \$150
 - Additional capital charges only as needed
- Company maintains a \$50,000 line of credit (never accessed to date)
- Board approved reserve: Target \$100,000

2019 WATER RATE COMPARISON

- **Sobre Vista**

- Per Bill Angeloni, not comparable to DAMWCO

- Very low rate

- Issues cash calls (Member Assessments) to fund expenses not covered by rate.

2019 WATER RATE COMPARISON

Valley of the Moon

Commercial / Industrial / MFR 4+ Units Rate		\$	6.22 per 1000 gallons
Institutional		\$	6.20 per 1000 gallons
Irrigation Rate		\$	7.06 per 1000 gallons
Single Family Residential / MFR 2 or 3 Units	0-4	\$	4.10 per 1000 gallons
Tiered Rates – usage per billing period	> 4	\$	7.15 per 1000 gallons

Bi-Monthly Service Charges (Effective 08/01/2019)

<u>Meter Size</u>	<u>Residential</u>	<u>Non-Resid.</u>	<u>Fire Line</u>
5/8"	\$ 26.11	\$ 42.78	NA
3/4"	\$ 37.49	\$ 62.51	NA
1"	\$ 60.26	\$ 101.95	NA
1 1/2"	\$ 117.19	\$ 200.57	NA
2"	\$ 185.49	\$ 318.91	\$ 17.39
3"	\$ 634.48	\$ 634.48	\$ 34.09
4"	NA	\$ 989.49	\$ 64.83
6"	NA	\$ 1,975.65	\$ 143.90
8"	NA	NA	\$ 249.32
10"	NA	NA	\$ 372.31
12"	NA	NA	\$ 468.94

2019 WATER RATE COMPARISON

City of Sonoma

Monthly Service Charges

Meter Size	9-1-2018	7-1-2019	7-1-2020
5/8"	\$22.80	\$24.51	\$26.35
3/4"	\$22.80	\$24.51	\$26.35
1"	\$22.80	\$24.51	\$26.35
1 1/2"	\$37.57	\$40.39	\$43.42
2"	\$55.29	\$59.44	\$63.90
3"	\$102.56	\$110.26	\$118.53
4"	\$155.73	\$167.41	\$179.97
6"	\$303.43	\$326.19	\$350.66

Single Family Residential Volumetric Tier Structure 1 kgal = 1,000 gallons

Tier	
Tier 1	0 to 2 kgal
Tier 2	2 to 7 kgal
Tier 3	Greater than 7 kgal

Water Consumption Rates (\$/kgal) 1 kgal = 1,000 gallons

Meter Size	9-1-2018	7-1-2019	7-1-2020
Single Family Residential			
Tier 1	\$4.61	\$4.96	\$5.34
Tier 2	\$6.25	\$6.72	\$7.23
Tier 3	\$7.37	\$7.93	\$8.53

IMPACT ON MEMBERS

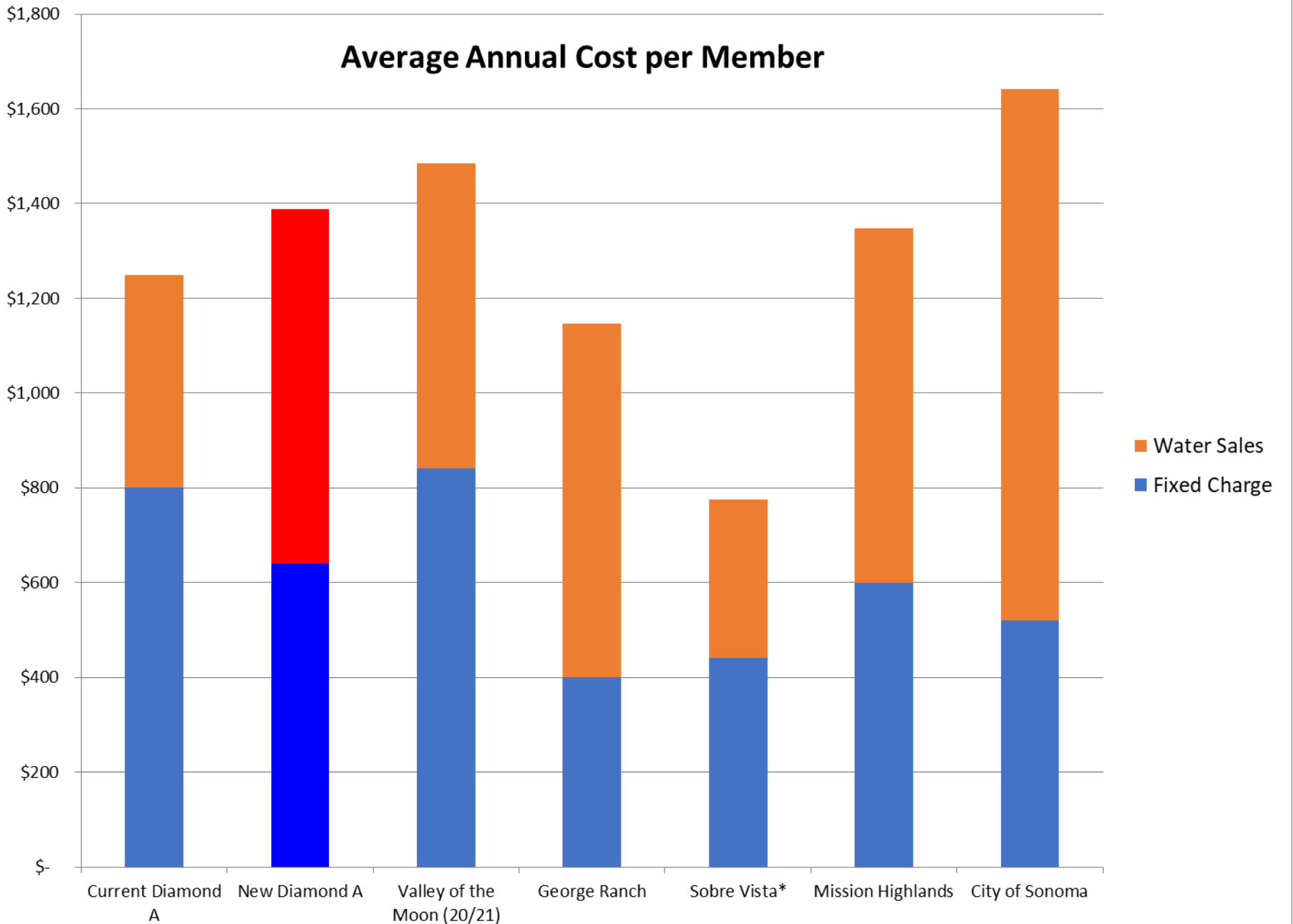
- Following is a table showing the impact on members assuming 3 different levels of water usage:
 - Average (37k gals/qtr)
 - High (75k gals/qtr)
 - Super High (160k gals/qtr)
 - *For reference, 2019 average usage per Member was 37,371 gals per quarter*
- The table also compares Diamond A rates to other water companies

IMPACT ON MEMBERS

	Annual \$\$		
	Example	Example	Example
	1	2	3
	Gals/Qtr	Gals/Qtr	Gals/Qtr
	37,371	75,000	160,000
Current Diamond A	\$ 1,248	\$ 1,775	\$ 3,620
New Diamond A	\$ 1,387	\$ 2,265	\$ 5,170
Valley of the Moon	\$ 1,485	\$ 2,505	\$ 4,876
George Ranch	\$ 1,147	\$ 1,900	\$ 4,080
Sobre Vista*	\$ 776	\$ 1,115	\$ 1,880
Mission Highlands	\$ 1,347	\$ 2,100	\$ 3,800
City of Sonoma	\$ 1,642	\$ 2,404	\$ 6,946

*Sobre Vista not considered comparable to DAMWCO

Average Annual Cost per Member



RATE SUMMARY

- The average annual cost per member will increase by \$139/yr
- Diamond A water rates have not changed since 2015
- The proposed new rates are comparable with other water companies in the Valley
- The new rate structure is needed to balance our Operating Income while still funding our M&I / Capital Reserves
 - This increase will put Water Sales at a break even with Operating Expenses

RATE SUMMARY

- Note that the previously discussed rate adjustments are **NOT INCLUDED** in the Budget information that follows
- If adopted by the Board, the rate changes would **ADD \$35K** in incremental Cash Flow to the proposed 2020 Budget

2020 BUDGET

- **Recommend Approval of 2020 Budget with Net Cash Flow of \$96,000 (before Cap Ex)**
 - Projections were based primarily on average historical income and expense
 - Excludes Depreciation
 - Excludes any Rate Changes
- **Budgeted Ending Cash:**
 - Year End 2019: \$126k
 - Year End 2020: \$115k

DIAMOND A MUTUAL WATER COMPANY										
Excludes Depreciation										
			APPROVED BUDGET	ACTUAL YTD	Projected Bal of Yr	PROJECTED	PROPOSED BUDGET	B (W) vs Prior Yr	B (W) vs Prior Yr	
			2019	10/13/2019	12/31/2019	2019	2020	Budget	Projected Act	
Water Sales & Service			115,000	117,381		117,381	115,000	0	(2,381)	No Change vs Prior Budget
Interest			0	45		45	0	0	(45)	
Other Income			0	0		0	0	0	0	
Subtotal - Operating Income			115,000	117,426	0	117,426	115,000	0	(2,426)	
Admin	Finance Mngr	Dee	15,965	12,600	4,200	16,800	17,304	(1,339)	(504)	
Admin	Legal & Accting		7,000	5,200	1,500	6,700	7,000	0	(300)	Expect legal costs re: Viewcrest Easement
Admin	Taxes		800	1,508		1,508	800	0	708	
Admin	Interest Expense		7,000	7,096	1,200	8,296	4,600	2,400	3,696	Lower due to Ammortization of Loans
Admin	Mailing & Office		579	515		515	531	48	(15)	
Admin	Bank Charges		4,156	3,788	500	4,288	4,416	(260)	(129)	
Admin	Website		500	196		196	200	300	(4)	
Admin	Fees		1,621	1,574		1,574	1,621	0	(47)	
Admin	Insurance		7,897	6,430	1,350	7,780	8,013	(116)	(233)	
Prior Year Adjust.										
Ops - Recurring	Operations Mngr	Bill	12,000	9,000	3,000	12,000	13,200	(1,200)	(1,200)	
Ops - Recurring	Monthly Service	JDY	18,420	13,807	4,602	18,409	21,361	(2,941)	(2,952)	Includes \$200/mo for Iconia
Ops - Recurring	Water Analysis / Health Dept		3,909	3,927	1,309	5,236	5,393	(1,484)	(157)	
Ops -R&M	Maintenance Projects		30,000	31,692	25,000	56,692	50,000	(20,000)	6,692	\$12,500 / qtr, Major Pipe Breaks
Ops -R&M	Materials		5,000	1,102		1,102	5,000	0	(3,898)	
Ops -R&M	Repairs (Minor)		25,000	6,508		6,508	10,000	15,000	(3,492)	Small Plumbing Repairs
Ops - Utilities	Telephone		1,276	928	309	1,238	1,275	1	(37)	
Ops - Utilities	Electricity		31,994	28,973	6,000	34,973	36,022	(4,028)	(1,049)	
Subtotal - Operating Expenses			173,118	134,843	48,971	183,814	186,737	(13,619)	(2,923)	
Net Cash Flow From Operations			(58,118)	(17,418)	(48,971)	(66,388)	(71,737)	(13,619)	(5,349)	
Income - Maintenance & Improvements			167,535	168,027		168,027	168,027	492	0	2019 Actual
Expense - Capital Improvements										
Subtotal - Capital			167,535	168,027	0	168,027	168,027	492	0	
TOTAL CASH FLOW BEFORE CAP EX			109,417	150,609	(48,971)	101,639	96,290	(13,127)	(5,349)	

2020 BUDGET with **RATE CHANGES**

- **Before Rate Changes, Cash Flow from Operations is NEGATIVE \$72K**
 - If adopted, the proposed rate changes will increase Water Sales by \$77k, bringing Cash Flow from Operations to essentially Break Even (\$5k positive)
 - At the same time, M&I revenue will decrease by \$34k.
- **Combined Overall Cash Flow before Cap Ex will INCREASE \$43K.**

2020 CAP EX

- **2020 Budget Assumes that the following Cap Ex Money is spent in 2019 before year end:**
 - \$45k to install Viewcrest Liner
 - \$2k to finalize first phase of Iconia instrumentation and control work

2020 CAP EX

- Total Cap Ex of \$57k are budgeted for 2020 (detail on next slide)
- Emergency Backup Generator
 - **Nothing is in Budget at this time for Generator Purchase**
 - Can be leased
 - Some members are interested in starting a fundraising campaign (similar to the Fire Truck)
 - \$5k is in the 2020 Cap Ex budget to run a generator simulation on the existing system to exercise old valves and confirm that 2 generators will provide water to entire system

10 YEAR CAPITAL FORECAST

- Requested by Board, not required by State
 - Informational Only---No Board Action is required
- Given all of the prior assumptions, a positive cash balance is forecast for the next 10 years
 - Assumes new rate structure starting 2021
 - Reserves are projected to grow significantly, particularly after the last tank loan amortizes out

DIAMOND A MUTUAL WATER COMPANY

PROJECTED NET CASH FLOW FROM OPERATIONS and 10 YEAR CAPITAL FORECAST DETAIL

Owner:

Water Usage rate increase of 65% proposed for 2021.
Will drop extra M&I payment at same time to offset.

Excludes Depreciation

				Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
		ESTIMATE	BUDGET	3%	3%	3%	3%	3%	3%	3%	3%	3%
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Water Sales & Service		117,381	115,000	188,600	188,600	188,600	188,600	188,600	188,600	188,600	188,600	188,600
Income - Maintenance & Improvements		168,027	168,027	134,422	134,422	134,422	134,422	134,422	134,422	134,422	134,422	134,422
Interest		45										
Other Income		0										
Subtotal - Operating Income		285,453	283,027	323,022	323,022	323,022	323,022	323,022	323,022	323,022	323,022	323,022
Admin	Finance Mngr	16,800	17,304	17,823	18,358	18,909	19,476	20,060	20,662	21,282	21,920	22,578
Admin	Legal & Accting	6,700	7,000	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800
Admin	Taxes	1,508	800	824	849	874	900	927	955	984	1,013	1,044
Admin	Interest Expense	8,296	4,600	4,000	3,000	1,000	0	0	0	0	0	0
Admin	Mailing & Office	515	531	547	563	580	597	615	634	653	672	692
Admin	Bank Charges	4,288	4,416	4,549	4,685	4,826	4,971	5,120	5,273	5,431	5,594	5,762
Admin	Website	196	200	206	212	219	225	232	239	246	253	261
Admin	Fees	1,574	1,621	1,670	1,720	1,772	1,825	1,879	1,936	1,994	2,054	2,115
Admin	Insurance	7,780	8,013	8,254	8,501	8,756	9,019	9,290	9,568	9,855	10,151	10,456
Ops - Recurring	Operations Mngr	12,000	13,200	13,596	14,004	14,424	14,857	15,302	15,761	16,234	16,721	17,223
Ops - Recurring	Monthly Service	18,409	21,361	22,002	22,662	23,342	24,042	24,764	25,507	26,272	27,060	27,872
Ops - Recurring	Water Analysis / Healt	5,236	5,393	5,555	5,722	5,894	6,070	6,252	6,440	6,633	6,832	7,037
Ops -R&M	Maintenance Projects	56,692	50,000	51,500	53,045	54,636	56,275	57,964	59,703	61,494	63,339	65,239
Ops -R&M	Materials	1,102	5,000	5,150	5,305	5,464	5,628	5,796	5,970	6,149	6,334	6,524
Ops -R&M	Repairs	6,508	10,000	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048
Ops - Utilities	Telephone	1,238	1,275	1,313	1,352	1,393	1,435	1,478	1,522	1,568	1,615	1,663
Ops - Utilities	Electricity	34,973	36,022	37,103	38,216	39,362	40,543	41,760	43,012	44,303	45,632	45,632
Subtotal - Operating Expenses		183,814	186,737	187,391	191,893	195,560	200,397	206,409	212,601	218,979	225,548	230,946
Net Cash Flow From Operations		101,639	96,290	135,630	131,128	127,462	122,625	116,613	110,421	104,043	97,473	92,076
Zone 2 Tank												
Viewcrest Tank		(45,000)										
Westamerica Bank Loan		0										
Use of Cash - Principal Repaid on White Oak Loan		(26,633)										
Use of Cash - Principal Repaid on Zone 2 Loan		(43,683)	(51,000)	(53,190)	(27,452)							
Use of Cash - Capital Improvements		(6,234)	(57,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)
Subtotal - Other Sources and Uses		(121,551)	(108,000)	(93,190)	(67,452)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)
TOTAL CASH FLOW		(19,912)	(11,710)	42,440	63,676	87,462	82,625	76,613	70,421	64,043	57,473	52,076
Beginning Cash		\$ 146,602	\$ 126,690	\$ 114,980	\$ 157,420	\$ 221,096	\$ 308,558	\$ 391,183	\$ 467,796	\$ 538,217	\$ 602,259	\$ 659,733
TOTAL CASH FLOW (above)		\$ (19,912)	\$ (11,710)	\$ 42,440	\$ 63,676	\$ 87,462	\$ 82,625	\$ 76,613	\$ 70,421	\$ 64,043	\$ 57,473	\$ 52,076
OTHER SOURCES												
Other												
CAPITAL PROJECTS												
Other												
Ending Cash		\$ 126,690	\$ 114,980	\$ 157,420	\$ 221,096	\$ 308,558	\$ 391,183	\$ 467,796	\$ 538,217	\$ 602,259	\$ 659,733	\$ 711,809

NEXT STEPS

- **Board Approval Needed**
 - 2020 Operating Budget
 - Changes to Water Rates
 - If approved, also need to determine Effective Date
 - Propose to start with Usage as of April 1, 2020 (members would see it effective with their July billing)