

Diamond A Mutual Water Company

UPDATE FOR MEMBERS

April 27, 2020

❖ OPERATIONS

➤ System Status

- Water quality is consistently excellent and meets all State and Federal water quality standards with only minimal chlorine treatment, as required, to insure water purity in the tanks and pipes.
- Approximately 40 million gallons of water are produced each year.
- The four wells are maintaining stable year-to-year water surface elevations with some seasonal fluctuations.
- Three of the four water tanks have been replaced in the past four years and the storage capacity increased by 30 percent.
- A polyethylene liner was recently installed in the fourth tank to reduce water leakage and to extend the life of the tank.
- A monitoring system is now in place that automatically reports the tank water surface elevations twice each day and issues an alarm when the water level falls below a predetermined depth. The early warning has already prevented a number of water outages.
- Continued required weekly monitoring and testing by Certified Operator Jerry and Don's Yager Pump Well Service.

➤ 2019 Maintenance Activity

- Repaired two major water main breaks.
- Replaced 4 water meters.
- Responded to several reports of water leakage.
- Cut brush and applied herbicide at tank sites to reduce overgrowth and reduce fire hazard.
- Removed dying pine trees near the Viewcrest tank.

➤ Future Projects

- Perform an engineering evaluation to evaluate the feasibility of providing backup generation to the system to mitigate power outages.
- Relocate the transfer pump and controls in the circular underground concrete vault located on Spring near Grove to the top of the vault for operational and safety considerations.
- Update the water system map.
- Upgrade selected electrical system components and wiring.
- Continue expansion of instrumentation and controls for the system.

❖ FINANCIAL

➤ Current Financial Status

- 2019 Cash Flow From Operations was \$17k lower than Budget which is driven primarily by Repairs and Maintenance being \$15k higher than budgeted.
- 2019 Capital Expenditures were \$50k lower than Budget.
- As a result, **DAMWCO ended 2019 with \$127k in Cash**, well above the \$89k Ending Cash as Budgeted.

➤ 2020 Financial Outlook

- Budgeting \$95k Cash Flow From Operations and \$57k in Cap Ex.
- Projecting 2020 Ending Cash of \$114k.

➤ Shortfall From Water Sales

- For the past several years, Operating Expenses have significantly exceeded revenue from Water Sales
 - Revenue from the Maintenance and Improvement charges (\$200/quarter) have been needed to offset the shortfall from Water Revenue
- Repair and Maintenance Costs
 - The cost to repair pipe breaks and other system failures has risen dramatically over the past three years.
 - This is due to both the age of the system infrastructure and sharp increases in outside contractor costs to make emergency repairs.
 - Below is a historical recap of our Repair and Maintenance Costs:

| REPAIR AND MAINTENANCE HISTORY | | | | | | |
|------------------------------------|---------|---------|---------|---------|---------|---------|
| From Reviewed Financial Statements | | | | | | |
| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
| TOTAL | 25,255 | 27,912 | 25,604 | 44,689 | 52,055 | 75,225 |

- 2020 Water Rate Changes
 - As a result of the increases in Operating Expenses, the DAMWCO Board approved the following changes to the Water Rates:

| | | <i>Proposed 2020</i> | <i>Current 2019</i> | <i>% Increase</i> |
|---------------------------|----------------|---------------------------------|--------------------------------|------------------------------|
| 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% |

- Note that the Quarterly M&I charge will be REDUCED by \$40/quarter, while the Rates for Water Usage will increase across the Board
 - **For the Average Diamond A user, this will equate to a net increase of \$35/quarter.**
 - For the Highest Diamond A users, the net increases will be much more significant.
 - **The new rates will go into effect with usage starting July 1, 2020**
 - **Members will see the new rates reflected in their quarterly water bills starting October 2020.**
 - The new rates will put Water Sales at a Break Even with Operating Expenses, which is a Board target.
 - Water Rates have not been changed since 2015.
 - The new rates are comparable to those charged by the other water companies in the Valley.

- Other Financial Housekeeping
 - The 2020 Budget was approved and posted on the Water Company website.
 - Fiscal 2019 Year-End Report by the independent auditor has been issued and posted on the Water Company website.
 - At the annual insurance renewal in 9/19, DAMWCO elected to join a pool of other water companies across the State of CA in a JPA entitled MemberGuard.
 - This reduced our insurance costs by \$1100/yr, which was used to fund increased insurance limits and coverage.

- Adequacy of Reserves
 - With \$127k in Cash on Hand, reserves are considered low. This is driven by the replacement/upgrade of our 4 failing redwood tanks since 2013.
 - Financial models project that Cash on Hand will increase over the next 5 years to over \$450k by the end of 2025.
 - The DAMWCO will continue to monitor this annually.

❖ COMMUNICATIONS

➤ Emergency Planning

- The Operations and Maintenance Manual is being revised to contain specific information for emergencies
- Last year several Board members met with Sonoma Valley Fire and Rescue Chief Akre and Battalion Chief of Operations Andreis to familiarize them with our water system for the purpose of preplanning for fire incidents.
- The Grove Street Fire Safe Council (GSFSC) has been officially formed and is developing a Community Wildfire Protection Plan. Water company data such as hydrant locations and performance capabilities are included in the plan. The entire GSFSC is considered as “high risk” from a fire hazard standpoint.

❖ GOVERNANCE

- The 2020 Annual Meeting of Members scheduled for March 29, 2020 has been postponed to a future date due to the Coronavirus pandemic.
- Elected Directors in 2019 for a two-year term:
 - Peter Hohorst
 - Dave Martinelli
 - Ron Mattison

Attachment: 2019 Financial Report from the Independent Auditor