

Diamond A Mutual Water Company

Report from Finance Subcommittee

December 5, 2022

- **2022 FINANCIAL RECAP**
- **2023 PROPOSED BUDGET**
- **2023 PROPOSED RATE CHANGES**
- **10 YR CAPITAL FORECAST**

FINANCIAL RECAP

- **2022 Water Sales/Usage Volume had unprecedented drop:**

		2020		2021		2022	
		Qty	Amount	Qty	Amount	Qty	Amount
TOTAL WITHOUT HIGH WATER USER							
Service							
1 - Tier 1 (Tier 1 0-50,000 Gallons - Water Service)		22,766	\$ 82,168	22,287	\$ 111,435	21,010	\$ 105,048
2 - Tier 2 (Tier 2 50,000-100,000 Gallons - Water Service)		7,297	\$ 35,311	7,100	\$ 44,368	5,546	\$ 34,663
3 - Tier 3 (Over 100,000 Gallons - Water Service)		5,307	\$ 44,369	4,538	\$ 43,111	2,340	\$ 22,230
Spec. Rate (Water rate @3.00 up to 200,000 gal. Rate after 200,000 @3.75)		728	\$ 2,274	774	\$ 2,350	810	\$ 2,569
Total Service		36,098	\$ 164,122	34,699	\$ 201,263	29,706	\$ 164,509
TOTAL - ALL USERS		36,098	\$ 164,122	34,699	\$ 201,263	29,706	\$ 164,509
			\$ 4.55		\$ 5.80		\$ 5.54

- **Combination of Factors:**
 - **Water Sales Rate Increase enacted in 2020**
 - **Biggest reduction was seen at highest tiers**
 - **Media focus on drought / conservation**

FINANCIAL RECAP

- **Due to the drop in Water Sales Volume, 2022 Revenue SIGNIFICANTLY LOWER than Budget**
 - Water Sales \$27k LOWER than Budget
- Repair and Maintenance favorable YTD

FINANCIAL RECAP

- **Projecting Net Loss of (\$2k) from Operations in 2022**
- Total Ending Cash expected to be \$276k at end of 2022

FINANCIAL RECAP

	Oct 8, 22
ASSETS	
Current Assets	
Checking/Savings	
Westamerica	37,858.73
Westamerica /MM	172,065.23
Total Checking/Savings	209,923.96
Accounts Receivable	
Accounts Receivable	101,921.77
Total Accounts Receivable	101,921.77
Other Current Assets	
Undeposited Funds	4,591.25
Total Other Current Assets	4,591.25
Total Current Assets	316,436.98
Fixed Assets	
Capital Improvements	1,448,853.92
Land	1,000.00
Water Equipment	482,031.11
Accum. Depreciation	-1,296,396.00
Total Fixed Assets	635,489.03
TOTAL ASSETS	951,926.01
LIABILITIES & EQUITY	
Equity	
Paid-In Capital	2,266,468.66
Common Stock	214.00
Retained Earnings	-1,388,861.26
Net Income	74,104.61
Total Equity	951,926.01
TOTAL LIABILITIES & EQUITY	951,926.01

FINANCIAL RECAP

	Jan 1 - Oct 8, 22
Ordinary Income/Expense	
Income	
Water Sales & Service	169,030.95
Maintenance & Improvements	133,759.00
Interest Income	69.30
Other Income	0.00
Total Income	302,859.25
Gross Profit	302,859.25
Expense	
Administration	
Finance Mgr	13,500.00
Legal & Accounting	2,090.00
Interest Expense	148.57
Mailing & Office	461.98
Bank & Merchant CC Charges	5,112.40
Fees	2,049.60
Insurance`	9,850.00
Administration - Other	0.00
Total Administration	33,212.55
Operations	
Recurring Services	
Equipment Rental	1,915.00
Ops Manager	10,800.00
Monthly Service	17,268.05
Water Analysis/Health	3,395.05
Total Recurring Services	33,378.10
Repair & Maintenance	
Major Projects	3,800.00
Repairs/Misc	26,319.11
Total Repair & Maintenance	30,119.11
Utilities	
Telephone	953.27
Electricity	32,802.16
Total Utilities	33,755.43
Total Operations	97,252.64
Total Expense	130,465.19
Net Ordinary Income	172,394.06

Includes M & I Revenue, but not Cap Ex.

Projecting \$110k of Cap Ex at year end, \$18k in principal reduction (note is paid off), plus incremental \$45k in Operating Expenses.

Resulting Cash Flow for 2022 is more or less Break Even

2023 BUDGET

- **Recommend Approval of 2023 Budget with Operating Cash Loss of (\$4,000) before Cap Ex**
 - Projections were based primarily on average historical income and expense
 - Assumed Water Sales stay at 2022 levels with adjustment in rates starting with AMJ usage (July billings)
 - On a “normalized” basis (full year of rate adjustments), cash flow would be positive
 - Excludes Depreciation

DIAMOND A MUTUAL WATER COMPANY							
Excludes Depreciation							
			APPROVED BUDGET 2022	ACTUAL YTD 10/8/2022	<i>Projected Bal of Yr 12/31/2022</i>	PROJECTED 2022	DRAFT BUDGET 2023
Water Sales & Service			195,717	169,031		169,031	208,347
Interest			0	69		69	0
Other Income			0	0		0	0
Subtotal - Operating Income			195,717	169,100	0	169,100	208,347
Admin	Finance Mngr	Dee	18,000	13,500	4,500	18,000	18,000
Admin	Legal & Accting		8,000	2,090	1,500	3,590	8,000
Admin	Taxes		800		800	800	800
Admin	Interest Expense		1,000	149		149	
Admin	Mailing & Office		444	462		462	500
Admin	Bank Charges		4,736	5,112	500	5,612	5,800
Admin	Website		200		200	200	200
Admin	Fees		534	2,050		2,050	2,111
Admin	Insurance		9,000	9,850		9,850	11,000
Prior Year Adjust.							
Ops - Recurring	Operations Mngr	Bill	14,400	10,800	3,600	14,400	14,400
Ops - Recurring	Monthly Service	JDY	22,178	17,268	5,400	22,668	25,748
Ops - Recurring	Water Analysis / Health Dept		1,545	3,395		3,395	3,497
Ops - Recurring	Generator Rental		6,000	1,915	1,800	3,715	6,000
Ops -R&M	Maintenance Projects		50,000	26,319	20,000	46,319	50,000
Ops -R&M	Materials		5,000	0	0	0	5,000
Ops -R&M	Repairs (Minor)		10,000	0	0	0	10,000
Ops - Utilities	Telephone		1,287	953	270	1,223	1,260
Ops - Utilities	Electricity		40,629	32,802	6,000	38,802	50,219
Subtotal - Operating Expenses			193,752	126,665	44,570	171,235	212,535
Cash Flow From Operations			1,965	42,435	(44,570)	(2,135)	(4,188)

2023 BUDGET

- **Additional Revenue:**
 - \$142k M&I (normalized at \$151k)
- **Projected Cap Ex:**
 - \$91k – Operations Fund
 - \$90k – Replacement Fund
- **Budgeted Ending Cash:**
 - Year End 2023: \$239k

2023 CAP EX

- Total Cap Ex of \$181k are budgeted for 2023 (detail on next slide)
- In 2024, budgeting to replace a second non-functional PRV at the recommendation of B&R
- Emergency Backup Generator
 - Nothing is in Budget at this time for Generator Purchase
 - Budgeting \$60k in 2025 for the purchase of one portable generator capable of running any of the wells

2023 Cap Ex BUDGET

	2023 Budget									
Manifold modifcation and control system at White Oak	6,000	JDY								
Control Systems - Water Level in Well	10,000	Iconia								
Transfer Pumps - Replace Land Lines with Wireless	5,000	Iconia								
Valves - Clean Up and Test, replace Non-Operational Valve	10,000	Outside vendor								
Steel Tank Inspection - Tank (Alta Sonoma/Sweet William)	10,000	Outside vendor								
Wood Tank Inspection	10,000	Outside vendor								
Logistics & Optimization for Generator deployment	10,000	B&R								
Option 1 Implementation - B&R	90,000	B&R								REPLACEMENT FUND - Replacing non-functional PRV
Ongoing Maintenance	30,000									
GRAND TOTAL	181,000									

CAP EX BUDGET ITEMS DEFERRED TO LATER YEARS *Estimated Cost*

	2024	2025	2026	2027	2028	2029
<i>Option 2 Implementation - B&R</i>	90,000					
<i>Purchase 50kw portable generator</i>		60,000				
<i>Option 3</i>			-			
<i>Option 4</i>						
<i>Option 5</i>						
<i>Option 6</i>						
<i>Option 7</i>						
<i>Replace Viewcrest Tank</i>						
	90,000	60,000	-	-	-	-

WHY DO WE NEED RATE CHANGES?

- Unprecedented drop in Water Usage
Volume has changed our Revenue
assumptions going forward
 - Sharp rises in Tier 2 & 3 rates in 2020 have had the desired effect of curtailing excessive water usage.
 - **Since 2020, Total water usage is down 18%**
 - In 2022, this drop in Volume completely offset our last rate increase.
 - Note: This volume decline is AFTER EXCLUDING our highest water user

WHY DO WE NEED RATE CHANGES?

- Water Usage by Tier vs 2020
 - Tier 1 down 8%
 - **Tier 2 down 24%**
 - **Tier 3 down 56%**

- If Water Sales Volume continues at 2022 levels, our current rate structure would leave DAMWCO with **\$40k annual operating losses**, before Cap Ex

WHY DO WE NEED RATE CHANGES?

- **General Inflationary pressures**
 - Outside contractors (JDY, B&R, Oak Grove) are passing on inflation-based cost increases
 - Our aging infrastructure continually needs to be repaired or replaced
 - Services from these outside vendors is critical in order to remain operational

WHY DO WE NEED RATE CHANGES?

- **The system needs upgrades**
 - Through SB 552, the State has mandated that mutuals:
 - Continue to implement programs that encourage conservation
 - Improve Resiliency
 - Improve flow capacity to respond to fires
 - Emergency backup systems (e.g. generators)
 - Monitor groundwater levels (already being done)
 - The hydraulic model completed by B&R (\$50k) has identified projects that will address the above Resiliency Improvements

WHY DO WE NEED RATE CHANGES?

- **Board wants to avoid an assessment**
 - Reserve levels are inadequate currently and new capital projects (e.g. B&R options) will prevent us from building capital to the needed levels
 - While an assessment might be necessary in event of a catastrophe (e.g. earthquake), with prudent planning we project to be able to build a Replacement Fund over time that will enable us to replace old assets as they go out of service.

RATE CHANGES

Rate Recommendations				
		Current 2022	<i>Proposed</i> 2023	% Increase
Tier 1	0-50k gals	\$5.00	\$ 7.50	50%
Tier 2	50k -100k gals	\$6.25	\$ 10.00	60%
Tier 3	> 100k gals	\$9.50	\$ 15.00	58%
Quarterly Maint & Improve		\$160.00	\$180.00	13%
New Rates would be effective with usage starting April 2023, which is billed in July 2023.				

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
 - Mid term Cap Ex projects for 2022-2025 are included
 - Replacement of Viewcrest Tank is included for 2030

DIAMOND A MUTUAL WATER COMPANY
PROJECTED NET CASH FLOW FROM OPERATIONS and 10 YEAR CAPITAL FORECAST DETAIL
Excludes Depreciation

				Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	
		ESTIMATE	BUDGET	3%	3%	3%	3%	3%	3%	3%	3%	3%	
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	
Water Sales & Service		169,031	208,347	252,185	252,185	252,185	252,185	302,622	302,622	302,622	302,622	302,622	
Interest		69		Dave: Assumes new water rates would start with Q2 usage (July billings)					Dave: Assumed another 20% rate bump in 5 years to keep up with inflation				
Other Income		0											
Subtotal - Operating Income		169,100	208,347	252,185	252,185	252,185	252,185	302,622	302,622	302,622	302,622	302,622	
Admin	Finance Mngr	18,000	18,000	18,540	19,096	19,669	20,259	20,867	21,493	22,138	22,802	23,486	
Admin	Legal & Accting	3,590	8,000	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	
Admin	Taxes	800	800	824	849	874	900	927	955	984	1,013	1,044	
Admin	Interest Expense	149	0	0	0	0	0	0	0	0	0	0	
Admin	Mailing & Office	462	500	515	530	546	563	580	597	615	633	652	
Admin	Bank Charges	5,612	5,800	5,974	6,153	6,338	6,528	6,724	6,926	7,133	7,347	7,568	
Admin	Website	200	200	206	212	219	225	232	239	246	253	261	
Admin	Fees	2,050	2,111	2,174	2,240	2,307	2,376	2,447	2,521	2,596	2,674	2,754	
Admin	Insurance	9,850	11,000	11,330	11,670	12,020	12,381	12,752	13,135	13,529	13,934	14,353	
Ops - Recurring	Operations Mngr	14,400	14,400	14,832	15,277	15,735	16,207	16,694	17,194	17,710	18,241	18,789	
Ops - Recurring	Monthly Service	22,668	25,748	26,521	27,316	28,136	28,980	29,849	30,745	31,667	32,617	33,595	
Ops - Recurring	Water Analysis / Health	3,395	3,497	3,602	3,710	3,821	3,936	4,054	4,175	4,301	4,430	4,563	
Ops - Recurring	Generator Rental	3,715	6,000	6,180	6,365	6,556	6,753	6,956	7,164	7,379	7,601	7,829	
Ops - R&M	Maintenance Projects	46,319	50,000	51,500	53,045	54,636	56,275	57,964	59,703	61,494	63,339	65,239	
Ops - R&M	Materials	0	5,000	5,150	5,305	5,464	5,628	5,796	5,970	6,149	6,334	6,524	
Ops - R&M	Repairs	0	10,000	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048	
Ops - Utilities	Telephone	1,223	1,260	1,298	1,337	1,377	1,418	1,461	1,504	1,550	1,596	1,644	
Ops - Utilities	Electricity	38,802	50,219	51,725	53,277	54,875	56,522	58,217	59,964	61,763	63,616	63,616	
Subtotal - Operating Expenses		171,235	212,535	213,671	220,081	226,683	233,484	240,488	247,703	255,134	262,788	268,763	
Cash Flow From Operations		(2,135)	(4,188)	38,514	32,104	25,502	18,701	62,134	54,919	47,488	39,834	33,859	
Beginning	Cash - Operations Fund	86,282	36,185	140,997	129,511	51,615	27,116	(4,183)	7,951	12,870	10,358	191	
	Cash Flow from Operations (above)	(2,135)	(4,188)	38,514	32,104	25,502	18,701	62,134	54,919	47,488	39,834	33,859	
	Interfund Transfer		200,000										
	Less: Cap Ex - Operations Fund	(47,963)	(91,000)	(50,000)	(110,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	
Ending Cash - Operations Fund		36,185	140,997	129,511	51,615	27,116	(4,183)	7,951	12,870	10,358	191	(15,950)	
Beginning	Cash - Replacement Fund	171,996	239,628	97,869	165,842	326,975	491,330	658,973	829,968	1,004,384	876,287	1,051,629	
	Income - Maintenance & Improvements	133,759	142,400	150,800	150,800	150,800	150,800	150,800	150,800	150,800	150,800	150,800	
	Income - Interest		5,841	7,173	10,333	13,555	16,843	20,195	23,615	21,104	24,542	28,049	
	Interfund Transfer		(200,000)	0	0	0	0	0	0	0	0	0	
	Less: Cap Ex - Replacement Fund	(66,127)	(90,000)	(90,000)	0	0	0	0	0	(300,000)	0	0	
Ending Cash - Replacement Fund		239,628	97,869	165,842	326,975	491,330	658,973	829,968	1,004,384	876,287	1,051,629	1,230,478	
Fully Funded Reserve Target		610,483	671,243	733,511	796,102	860,807	926,865	987,050	1,043,617	953,070	1,013,520	1,074,966	
Reserve Surplus (Deficit)		(370,855)	(573,374)	(567,669)	(469,127)	(369,477)	(267,892)	(157,082)	(39,233)	(76,783)	38,109	155,512	
Ending Cash - COMBINED (000's omitted)		\$ 276	\$ 239	\$ 295	\$ 379	\$ 518	\$ 655	\$ 838	\$ 1,017	\$ 887	\$ 1,052	\$ 1,215	

NEXT STEPS

- **Board Approval Needed**
 - 2023 Budget
 - 2023 Rate Changes