ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

Alleghany County Water District (ACWD) was established on March 8, 1939 to provide water to the town of Alleghany for both domestic use and fire protection.

When the district was formed, Alleghany had a population of approximately 586 (1940 US Census). The most recent census (2020) recorded 55 full-time residents. This represents a 90% decrease in the population over eighty years. It is notable that the change in population between the 2010 and 2020 census was a decrease of only 3 individuals. This is the first time in approximately 80 years that the census data has not recorded a significant decrease in the town's population. Currently ACWD has 54 active customer accounts.

Sustaining its operation with such a small customer base is ACWD's biggest challenge. Balancing sustainability with affordability is a daunting task. The Board and Staff donate many volunteer hours to the district on a regular basis to keep it functioning.

ACWD does, from time-to-time, apply for grants. The bulk of the current infrastructure was built in 1977-78 with a 50/50 loan-grant from USDA Rural Development. That loan was paid off in November of 2017. As a direct result of this loan pay-off the district has started building up a contingency fund.

<u>Recently completed projects:</u>

In 2015 the district was awarded a loan with debt forgiveness (grant) from the Water Resources Control Board's State Revolving Fund for a Planning and Engineering Analysis of the ACWD storage tank and water sources.

The primary objective of the planning project was to find the most sustainable way to supply the town's drinking water in compliance with State laws. The two major concerns at that time were the poor condition of the main water storage tank and treatment plant. The lack of water source redundancy was also a concern. Changing the main water source (the Ram Spring) from "ground water under the influence of surface water" to "ground water" was a known way to reduce water production costs. Because of environmental concerns about drilling at the Spring, the district was encouraged by the State Engineers to try vertical test wells. Two vertical wells would have solved both the surface water and the redundancy issues if successful. However, the vertical test wells were not successful (inadequate water quantity and quality).

After the vertical test wells proved unviable, in May of 2017, as part of the planning project, driven pipes were installed at the Ram Spring to minimize surface water infiltration. As a result of this drilling, and with subsequent water quality testing; on October 20, 2017 the State Division of Drinking water amended the Permit for the Ram Spring changing its classification to "ground water". This new classification eliminates the need for a treatment plant and lessens several regulatory requirements, saving both time and money over the long-term.

The water tank portion of the planning project was completed in 2016 and a new funding agreement for construction of the water tank was executed on July 20, 2017. The new water storage tank was put online in November of 2018 but started leaking in October of 2021. A warranty claim is pending.

The water source redundancy portion of the planning project had to be abandoned due to budget constraints

The Ram Spring portion of the Planning Project was completed on December 1, 2020 and an application for construction has been started as noted below.

Pending Projects

Since early 2020, the district has been in the process of applying for funds from the Water Resources Control Board's State Revolving Fund for a construction project that will reconfigure the facilities at the Ram Spring to accommodate the changes made during the planning project (installation of driven pipes & removal of the treatment plant) and to address a few other issues based on the alternatives analysis completed as part of the Planning Project.

There have been substantial delays in completing the Ram Spring Improvement Project's (RSIP) construction application. The main delay has been difficulty in navigating the environmental requirements. During the Planning Project in 2015, when the state engineers encouraged the district to try vertical wells rather than the driven pipes at the Ram Spring, environmental red-tape was given as the primary reason for this advice. In hindsight, this has proven out. Because the vertical test wells failed, the Ram Spring remains the only water source for the community. A technical assistance award from the Calif. State Water Control Board Department of Finance was awarded in 2021 to complete the environmental paperwork for the RSIP construction application with a closing date of 12/31/2022.

The construction project includes the replacement of residential water meters funded by a program for low-income communities.

Budget Procedure Notes

The enabling legislation for County Water Districts requires charging rates sufficient to cover operating expenses, repairs & depreciation and debt payments. However, there are also State and Federal guidelines in place regarding affordable rates for basic services such as water. ACWD's Board and Staff have not found a way to cover depreciation expense while maintaining affordable water rates with so few customers. **As a result, ACWD does not budget for depreciation.**

The district's budget worksheet combines both "cash-based" and "accrual" projections to ensure that adequate cash is available to cover operating expenses and maintain reserve funds.

Comparison of budgeted versus actual results

Audited actual results vary significantly from the adopted budget because the audit documents include depreciation and are on a strictly accrual basis. Audit documents convert the district's bookkeeping data to Generally Accepted Accounting Standards for governmental agencies. (see notes above).

Operating revenue: Water Service revenue came in 7% higher than projected.

Operating expenses: Operating expenses came in remarkably close to the budget projections except for the "Water Operations" expense line item which came in $1,393 (23%) less than projected due to minimal repair costs. Depreciation expense is 100% high because it is not included in the budget as noted above.

Non-operating revenues Actual results came in as projected.

Non-operating expenses Actual results came in as projected.

The year-end results show a negative budget net change variance of $27,963. This is primarily due to the depreciation expense of $31,561 which was not included in the budget as noted above.