

Alleghany County Water District Staff Report Sept. 2019

***Where is the money from the rate increase that went into effect on June 1, 2016?
Where is the savings now that the USDA loan is paid off?***

The questions above are on many people's minds and rightly so. Here are the answers:

First we need to look at the income side of things.

- Regarding the 2016 rate increase: the recommended rates for Alleghany based on a rate analysis conducted in 2015 by the California Rural Water Association (CRWA) was \$58.61 per month with actual usage billed on top of that! That recommendation was not even considered by the ACWD board of directors.
- After explaining that our residents could not afford such a large rate increase CRWA REMOVED long-term savings for equipment replacement from the formula. (Also known as depreciation expense and/or a Capital improvement fund). They then came back with a recommendation of \$40.55 per month with usage billed on top of that.
- To make a long story short, after two public hearings we settled on \$40 per month for ALL customers with up to 8,000 gallons of water included in the flat rate and all gallons over 8,000 gallons billed at .003 per gallon (\$3.00 per thousand gallons).

The rate change DID generate additional flat-rate revenue of about \$2,000 per year; but that was offset by less overage income. Bottom line: it was not adequate to cover the district's expenses. However; a few things were in the works that made us optimistic that the district would be OK in the long-run:

- The 40-year USDA loan was scheduled to be paid off in December of 2017
- The district had been awarded a planning grant for long-term sustainability and tank replacement.
- The district's financial bookkeeping had been brought into compliance with generally accepted accounting procedures enabling better fiscal management and increased transparency.

One good thing accomplished (depending on your perspective) with the 2016 rate change is that the district went from having FIVE different rate schedules to having only ONE rate schedule for ALL customers in compliance with proposition 218.

Factors that are having a negative impact on ACWD's income and/or that have the potential to do so:

- Loss of customers: the town is shrinking. This has been the case for over 80 years. Approximately 12% of the active accounts are for properties that have had NO water use for over 10 years. Another 12% of the customers rarely use water (vacation homes or vacant lots).
- Declining property values: recently, property values have gone down in Alleghany, this should lower the district's tax income (currently about \$5,000 per year).
- Water loss: according to the State it is common for water systems to lose an average of 20% of their water production via leaks, unauthorized and authorized fire hydrant use etc. An analysis that I conducted in 2016 revealed a 25% average water loss. The district borrowed leak detection equipment from the State on two occasions but never located the leak(s). One leak was later found on Kanaka Creek Rd. and it was apparent that it had been going for a long-time. The goal should be to get this figure to 10%. I have not found the time to do another analysis but it is on "the list". This is an issue that we need to continue to work on.
- Less water use: when more people were growing larger pot crops (as they were when the rate analysis was done) it was having a positive impact on the district's income because of increased overage sales. That is no longer the case.

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On the **expense** side of things there are both positives and negatives. I will start with the negatives:

- **Increased state regulations and water testing requirements.** The amount of time and money spent on regulatory compliance is almost always INCREASING (see exception below). Time = labor, a lot of which is currently being donated for administration but this may not always be the case. The cost of the annual audit is part of this category, currently \$2,800 per year. For many years the district's books were not audited as required but we did save a LOT of money. To qualify for funding and many other things this has to be done.
- **Inflation** it is a fact of life: insurance rates, utility rates and other rates should be expected to continue to increase over time.

Positives on the expense side:

- The fact that we accomplished the goal of having our **water re-classified as ground water** is HUGE. This is already saving time and money on the regulatory end of things. For example: the consumer confidence report and annual usage report are both easier to fill out now.
- **No treatment plant** also related to the water reclassification above, should save money over the long-term. The district has seen a decrease in utilities expense and equipment repair expenses in the last two years.
- **The SCADA System** When we do finally get this component dialed in it should save both time and money. Currently we are still having problems with it but it is being fixed as part of the water tank construction project.
- **The Future construction project** related to the planning project includes new meters for all of the residential customers for increased billing accuracy, valves and meters on three spurs off the main-line which will help with both leak detection and isolation and other infrastructure changes that should save money.

Until all of the changes above have been in place for a period of time it will be difficult to quantify the savings and even then, it may be difficult because of other factors that are always changing.

Keeping an eye on things: the Management's Discussion and Analysis (MD&A) that is part of ACWD's annual audit report includes an actual-to-budget analysis for any categories that show a 10% or more variance from what was budgeted. The budget variance analysis is at the END of each report. Available online here:

<https://www.alleghanywater.org/management-s-discussion-and-analysis>

THE CONTINGENCY FUND

Building up reserve funds was one of the stated objectives when the water rates were changed. A contingency fund policy was adopted by the board on March 21, 2017 : available online at

<https://www.alleghanywater.org/policies-and-procedures>

In November of 2015 the district had to borrow \$3,000 from the non-enterprise account (park and historical church \$) to cover operating expenses. That money was paid back on 2/19/18. Since then the district has put an additional \$4,500 into a contingency fund. **This represents \$7,500 that has been "put aside" in less than two years.** Remember we started with a deficit.

Based on the results of fiscal year 18/19 the board was able to put another \$5,500 into the contingency fund bringing the balance to \$10,000 at 9/30/19.