

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015**

Alleghany County Water District (ACWD) was established on March 8, 1939. At that time the population was almost 600 (1940 census count 586). Currently Alleghany has a population of 58 full-time residents and approximately 20 part-time residents. This represents a 90% reduction in the full-time population since 1940. Alleghany is defined as a "severely disadvantaged community" by State and Federal standards (median household income less than 60% of statewide average based on 2010 census).

ACWD has many of the same overhead expenses that a larger district has, but the customer base is much smaller for spreading out those costs. This is perhaps the biggest challenge the district faces. The district currently lacks reserve funds to cover unexpected expenses.

The district 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 will be paid off in December of 2017. In 1994 the district acquired a HUD grant to upgrade the treatment plant, install additional fire hydrants and improve water circulation by connecting the two main lines. In early 2015 the State Water Resources Control board accepted the district's application for a Planning Grant from the State Revolving Fund. The application was completed in July of 2015. The funding agreement is pending and is expected to have a "green light" by the end of September. For more information see #2 below.

District Management is working diligently to find ways to 1. Increase revenue and 2. Cut costs.

1. Increase Revenue: The main source of regular income for the district's operation is water fees charged to its customers. The other regular source of income is property tax revenue in the amount of approximately \$5,000 per year. The property tax figure is unlikely to change significantly in the foreseeable future. Because of the community's income constraints its ability to tolerate fee increases is limited. The district recently utilized the services of an outside firm (at no cost to the district) to do a rate analysis. The purpose of the rate analysis was to look at restructuring the district's rate structure in such a way that water production costs will be spread out more uniformly among the district's customers and to hopefully increase water sales income at the same time. The district is holding an informal public hearing on Nov. 17, 2015 to discuss the rate study with the community. After that an official "Notice of Public Hearing" will be mailed in compliance with Proposition 218. Based on the Prop 218 time schedule and the district's billing schedule the soonest that new rates could be put in place would be February 1, 2016.

2. Reduce costs: For the fiscal year ended June 30, 2015 expenses totaled \$46,548. The largest expense categories include depreciation \$16,667 (36% of total expenses), Water Treatment operator & system related labor \$5,203 (11%), Administration \$4,800 (10%), System repairs & maintenance (not counting labor) \$4,653 (10%), Utilities \$4,604 (10%) and Insurance \$3,776 (8%).) Other expenses not listed above that are directly related to system operation include: Mileage \$1,122 (2.4% of total costs), Chemicals \$1,067 (2%) and Water tests \$1,642 (3.5%).

Insurance and Utility Expenses are not expected to decrease and will most likely increase in the future. Labor costs are not expected to decrease. Due to the age of the water system it is likely that more labor and materials will be needed for repairs and maintenance

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in the immediate future. The district relied heavily on volunteer administrative help in FY 14/15 and continues to do so, but this is not expected to continue into the long-term.

As noted previously, the bulk of the district's infrastructure was built almost 40 years ago. The treatment plant was installed 20 years ago. The treatment plant utilizes proprietary technology and parts. Many of the original parts are beyond their expected lifespan. The amount of time and money needed to maintain the treatment plant has increased as a result, yet the district lacks the funds to upgrade or replace the plant.

The district has applied for a planning grant with the following long-term objectives in mind: 1. Replace the town's water tank which is well beyond its useful life, 2. Develop at least one alternative water source for the town utilizing ground water and 3. Rehabilitate the spring field that currently is the town's sole water source in such a way that it can be reclassified as "ground water" (currently classified as ground water under the influence of surface water). The scope of the current grant application does not include the spring field rehab but it facilitates doing that work in the future by creating an alternative water source that can be used while the rehab work is being done. A new treatment plant *is* included in the scope of the planning grant if water quality standards are not met by the new ground water source.

If the long-term goals listed above are achieved, operating costs should decrease in several expense categories. Changing the town's water source to ground water will significantly reduce state mandated testing requirements (water testing expenses) which will in turn, reduce mileage expenses associated with taking water tests to the lab. Assuming the new ground water source meets water quality standards, no treatment plant will be required nor will chlorination be required. This should reduce costs in the following categories: System repair and maintenance, chemicals and utilities.

Comparison of budgeted versus actual results

Operating revenue came in \$1,693 (6%) higher than what was budgeted. This was primarily due to the fact that the district takes a conservative approach when estimating revenue.

Total operating expenses came in \$16,667 (53%) higher than budgeted primarily due to depreciation expense. The district does not currently have the funds for a capital replacement program and thus does not budget for depreciation expenses. The district does however, budget for debt service (loan payments). In other words: ACWD uses a combination of "cash based" and "accrual based" accounting for budget projections.

Individual expense categories with significant variance between budgeted and actual results include: Meter Reader Contract \$355 (178%) higher than projected due to a water trade for services that was not booked in the past, but that is now being booked to facilitate increased accuracy and transparency. This is offset by \$355 in water fee revenue booked at the same time. Water Treatment Operator contract \$432 (14%) higher than projected also due to a water trade as explained above, Utilities \$404 (10%) higher than projected due to increased utility fees, Water tests \$842 (105%) higher than budgeted due to increased water testing per directive from the State of California. Chemicals \$367 (53%) higher than projected due to increased chlorination requirements from the State.

**ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Water service fess & county taxes	\$ 30,500	\$ 30,500	\$ 32,193	\$ 1,693
Interest	-	-	-	-
Total Operating Revenues	<u>30,500</u>	<u>30,500</u>	<u>32,193</u>	<u>1,693</u>
Operating Expenditures:				
Insurance	3,853	3,853	3,776	77
Administration	4,800	4,800	4,800	-
Meter reading	200	200	555	(355)
WTO contract	3,000	3,000	3,432	(432)
Labor	1,250	1,250	1,216	34
Utilities	4,200	4,200	4,604	(404)
Water tests	800	800	1,642	(842)
Office supplies	950	950	1,231	(281)
System maintenance & repairs	1,700	1,700	4,653	(2,953)
Permit fees and dues	1,000	1,000	792	208
Mileage	1,000	1,000	1,122	(122)
Chemicals	700	700	1,067	(367)
Miscellaneous/contingency	267	267	28	239
Loan payment - interest	6,780	6,780	963	5,817
Depreciation	-	-	16,667	(16,667)
Total Operating Expenditures	<u>30,500</u>	<u>30,500</u>	<u>46,548</u>	<u>(16,048)</u>
Excess of Operating Expenditures Over Operating Revenues	-	-	(14,355)	(14,355)