

Water Words

2019 Newsletter Winter Edition



President's Message

BEST WISHES FOR A SAFE AND HAPPY 2019 TO EVERY SHAREHOLDER AND CUSTOMER,

In 2018, SMMWC produced 54 million gallons of potable water and treated 27 million gallons of wastewater per governmental standards. Taking care to provide as safe a working environment as possible and using preventative maintenance whenever practicable, fines, injuries and costly breakdowns were avoided. Upgrading of pumps and other components of our system has helped keep costs in check and improved monitoring. Of the water treated, 36 million gallons came from State Water and 18 million gallons from our wells. The cost of State Water will continue to increase from its procurement through the County of San Luis Obispo to its treatment on arrival.

In follow-up to last January's letter, two wells were drilled; and, hopefully, a third will be drilled in 2019 at the site selected by our geologist. The goal is to ascertain the quantity of water that we have in our service area and its quality to determine the costs of production and how best to proceed. As each step is completed, we will provide updated information to all shareholders and customers.

2018 saw our service area in the "Severe Drought" classification. As a result, we remained under the 25% reduction State mandate; unfortunately, our communities failed to meet that goal. We all need to focus on and cultivate better water conservation practices this year and into the future.

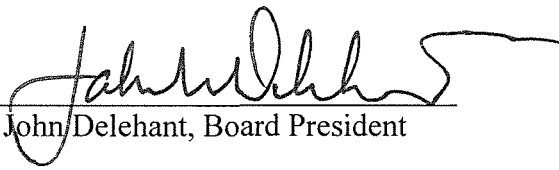
Since its inception SMMWC has had commercial and residential shareholders and customers. To date the Board has taken into account the best interest of all shareholders and customers before making any decisions. In order to cast a valid vote, each and every shareholder must be current in payment of all fees and charges. When the Regional Water Quality Control Board made a presentation explaining the need for a regional wastewater treatment plant for current and future needs in the Avila Beach region, the SMMWC Board authorized entering into a joint agreement with Avila Beach CSD to study how to achieve this and ensure a renewal of both organizations' waste discharge permits. Necessarily, recent events regarding the closure of PG&E's Diablo Canyon Nuclear Power Plant, a proposed development by the Wild Cherry Canyon long term tenant, and the announced intent by PG&E to declare bankruptcy will result in the Bankruptcy Court appointment of a Trustee, making a regional plant a more lengthy, complex and delicate task.

Recently you may have received a letter soliciting your proxy from the San Luis Bay Estates HOA (SLBE HOA) that is responsible for inside-the-gates security, Lupine Canyon Road and its landscaping. The SLBE HOA does not and has never owned any shares of stock in SMMWC. Its solicitation, if it used part of your SLBE HOA dues, is legally problematic. You may have also seen supplements of arguments or forms for this solicitation on the social media site Neighbor Network. The most effective form for assignment of your proxy to any person or entity, as prepared by SMMWC, is on the SMMWC website, in our office and a copy is attached to this newsletter. If you

choose to assign your proxy, please use this form so that election results can be timely reached at the May annual meeting or any other voting occasion.

If you wish to assign your proxy, please understand that the group driving SLBE's proxy grab previously attempted to invalidate the 144 votes of shareholders, even though their shares were, and have always been, fully paid and legally cast. Additionally, a director elected with the support of this group admitted he supported this maneuver for years. The same director attempted to exploit his position on the Board to use SMMWC's personnel and equipment to gain access, along with a news reporter and camera crew, to trespass on property not owned by SMMWC and promote opposition to the above-mentioned proposed Wild Cherry Canyon project, the vast majority of which is not even in SMMWC's service area.

To our office and field staff, my very best wishes for 2019. Thanks to each of you for your fine work in 2018. I'd also like to thank the majority of our volunteer Board for their good efforts this past year and continuing efforts as we move forward.



John Delehant, Board President

Use of SMMWC Proxies at Annual Election

Shareholders are strongly encouraged to use the SMMWC proxy available at our office and on the company website to facilitate and expedite the proxy validation process.

How SMMWC works and other FAQ's answered

SMMWC takes pride in delivering quality water and treating wastewater for its shareholders/customers, day-in and day-out. Many thanks to the dedicated professionals - the employees of SMMWC - that make all of this happen. Over the last year, they compiled a perfect scorecard: ZERO injuries; ZERO spills; ZERO fines from regulatory agencies.

Even so, shareholders have been subjected to many misperceptions regarding the Operations and Policies of SMMWC. As is always the case when changes by other Shareholders are proposed, there is another group of Shareholders that oppose those changes. Throughout the back and forth exchanges many misstatements are made, conversations misquoted and numbers are interpreted to support arguments intended to support specific agendas. Sadly all this is done without discussion or consulting SMMWC Board or Staff.

The following discussion attempts to answer many of the current misstatements regarding SMMWC. Shareholders are always welcome and encouraged to come to our office with any questions and concerns.

How is SMMWC financially managed?

SMMWC operates on the Calendar year, January 1st to December 31st. Much like a public entity, SMMWC uses three enterprise funds, Water, Wastewater and General Administration. Revenue is from the Water and Wastewater services charged to its Residential, Commercial and Irrigation Shareholders/Customers. The General Administration fund is supported equally from the Water and Wastewater funds. All of the revenue goes directly to the short-term Operations and Maintenance (O&M) of our system as well as to long term Planning issues and Capital Replacement.

In October of each year Staff begins to prepare the next year's Budget. This is done by analyzing current and historic water usage, Operational and Capital Revenue, Operations and

Maintenance expenses, and estimated Capital Expenses for the next year. In November or December, the Board approves the Budget. It is important to note that the next years Capital Project expenditures are based on estimates several months in advance of the actual Project being started. As with other agencies, the Board approves the Project and adjustments are made to the Capital Expenditures once the actual costs are known. Board Policy is to always stay within the approved Capital Budget as Projects may be added or removed throughout the calendar year.

In January of the following year SMMWC contracts with a Licensed CPA to perform an audit of the previous year and to prepare a Financial Statement which includes Balance and Income Statements as well as Depreciation Expense and Income Taxes. The Board reviews this Statement in April of each year and approves the Final Financial Statement in May of each year. A summary of the Final Financial Statement is mailed to each Shareholder in the Annual Meeting Mailer and the full Financial Statement is included in the Annual Meeting Packet.

How does SMMWC's State Water contract work?

In March of 1993, SMMWC subcontracted with the San Luis Obispo County Flood Control District (County) for 275-acre feet (acft) of State Water with a 275 acft Drought Buffer. To help pay for the initial and yearly cost, SMMWC has subcontracted portions of its 275 acft to Shareholders of Residential and Commercial undeveloped properties. These properties pay for State Water on a prorated basis of the total cost of SMMWC's 275 acft. Current subcontracts of SMMWC's State Water are at 52 acft of the 275 acft. The cost of State Water per acre foot delivered has varied from \$1400 to \$3300 with the average yearly cost being well below the acre foot cost of Reclaimed Water or Desalinization.

SMMWC is one of 11 subcontractors to the County. Overall the County has 25,000 acft of State Water. The 11 subcontractors use about 10,000 acft of the total amount. As subcontractors to the County, the 11 agencies cannot contract outside of this County for additional water or storage of water. Even the County cannot contract outside its agreements with the State Department of Water Resources.

Operationally, the State Water that SMMWC receives comes to us through the Lopez pipeline. The County treats water from Lopez Lake and mixes it with State Water for Delivery. In others words SMMWC gets a mixture from both sources in the same pipe. SMMWC is also one of the only agencies that monitors this blended water with SMMWC's own Water Treatment Facility to provide its Shareholders with the highest quality water.

What is the Marre Weir?

Have you noticed this structure while walking along the Bob Jones trail? The Marre (pronounced mar-ray) Weir is actually a "hydrological" facility that sits on the boundary between the golf course and SLBE. This amazing structure, jointly owned by San Miguelito Mutual Water Company and the golf course, contributes freshwater recharge to the local aquifers while keeping sea water from migrating inland. Company management has been diligently working to maintain the long-term viability of the weir by working closely with California Department of Fish and Wildlife, California Conservation Corps, the City of San Luis Obispo, and Central Coast Salmon Enhancement. One outcome of these meetings has been to budget capital funds to seek multi-agency grant funding for projects that would serve to maintain the weir. This is listed in the SMMWC 2019 budget under the "Repair and Maintenance of the Weir" category. It should be noted that SMMWC does not fund maintenance of the weir itself. All day-to-day maintenance deals with the structure's interaction with the creek and the materials that get carried along with the flow and is under the jurisdiction of the California Department of Fish and Wildlife. Our water supply as well as the freshwater habitats upstream of the weir depend on it being in service for many years to come.

What is SMMWC's Lease Agreement for the Waste Water Treatment Facility?

One of the biggest current misstatements concerns the Wild Cherry Canyon lease of SMMWC's Waste Water Facility. Contrary to recent opinion, the SMMWC Board has regularly discussed and reviewed the terms of the lease with the leaseholder and the landowner. The original facility was created in 1967 and a lease was established through bankruptcy proceedings in 1978. SMMWC's lease is a sublease of the 1978 lease. In the early 1990's SMMWC tried to better define the sublease area through multiple discussions with the leaseholder. The leaseholder repeatedly declined to allow modifications of any type and the same holds true to this day. More recently, SMMWC management has begun discussions with the owner of the land (separate from the leaseholder). These discussions have been much more productive, resulting in a plan of action to preserve SMMWC's land use rights. Our strategy is to continue to pay close attention to this plan and to proceed at the pace established by the land owner.

New Rates for 2019

For 2019, the Board has decided that there will be no change to the water base availability charge and there will be an increase of 2% to the water usage charge. For the Wastewater side there will be an increase in the minimum availability charge of 4%. These adjustments are necessary to make the water and wastewater funds self-sustaining. For the Capital charge, there will be a \$3.00 increase for both Water and Wastewater in order to build reserves for future projects (see the next article). This means that the total availability rate for Water has increased from \$53.28 to \$56.28 and the total availability rate for Wastewater has increased from \$63.29 to \$67.90.

	2018	2019	Change
Water Monthly Availability Charge	\$30.28	\$30.28	0
Water Usage 1,500-10,000	\$1.10*	\$1.12*	2%
Water Usage 10,001-50,000	\$1.35*	\$1.38*	2%
Water Usage 50,001 & Over	\$1.45*	\$1.48*	2%
Sewer Monthly Availability Charge	\$40.29	\$41.90	4%
Water Capital	\$23.00	\$26.00	\$3.00
Sewer Capital	\$23.00	\$26.00	\$3.00
*Cost per every 100 gallons			

Capital Projects completed in 2018

In 2018, we completed the SCADA system for both the water and wastewater systems with the installation of several solar panels. The radio-based system reports and records all telemetry data directly to our office. Our biggest undertaking this year was to refurbish the buildings at our lift stations. This was done to insure the structural integrity of the buildings which house the emergency generators, pump starters and other sensitive recording devices. The other project that was planned and completed was the replacement of older meters and angle stops within Pelican Point.

Capital Projects for 2019

For 2019 our projects will include the replacement of several waterline valves and flex couplings. At the Wastewater plant we will desludge the treatment basin and replace a 1985 era aerator whose motor is no longer feasible to be rewound. Staff will continue to replace aging water meters, this year focusing on Skylark Meadows. Lastly, we hope to finalize the instrumentation of our SCADA system with the installation of sensors that will enable Staff to monitor additional parameters of our Water and Wastewater systems.

Our Location

For those of you who have not visited our office yet, we are located at **1561 Sparrow Street**, behind the Cal-Fire Station. Our mailing address has not changed. Customers can still save postage by placing their payments in our SMMWC drop box at the Lupine Canyon mailboxes across from Mallard Green or deliver their payments to our new office. Our office also has a payment drop slot next to the front door for afterhours use.

SMMWC now offers Online Bill Pay

Please visit our web site at smmwc.com for information regarding the option to pay your bill online. This feature can be found on our homepage, just click on “Pay my Bill “. Please note that this option is through a secure third-party website, so a small fee will also be charged to your credit card.

As an additional convenience to our Customers, SMMWC offers our **ACH auto debit payment program at no additional charge**. This method of payment allows SMMWC, through our Bank, to directly debit Customer payments through Customer checking accounts. SMMWC submits all ACH debits on the 15th of each month so there is no worry of getting a late charge from SMMWC. Please inquire at our office for more information. For those of our shareholders who use their own bank’s “Bill Pay” process, please remember to schedule the delivery of your payment far enough in advance to allow for slower USPS deliveries during the Holidays and bad weather.

Conservation Tips

- Check all faucets, pipes and toilets for leaks
- Check your irrigation timer’s backup batteries annually
- Water your yard and outdoor plants early or late in the day to reduce evaporation
- Use Plants that require less water
- Mulch around plants to hold water in the soil
- Use a broom, not a hose to clean driveways a walkway
- Use a shut off nozzle on your hose



GENERAL PROXY FORM

INSTRUCTIONS:

- Use this form if you would like to assign your voting right to an individual.
- Sign and date both the Designation and Authorization sections.
- Give the Designation Section to your Designated Proxy Holder to turn in at the time of voting.
- Return the Authorization Section to the SMMWC Office before the time of voting.

DESIGNATION SECTION:

Your Name: _____ Property Address: _____
Designated
Proxy Holder: _____ Number of Shares: _____ Share Certificate(s) #: _____
Your Signature: _____ Date: _____

Note: Proxies received that cannot be matched to a signed Authorization may be subject to extended validation.
Proxies are valid for 11 months from the date of signature unless otherwise specified.

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*****RETURN THIS PORTION TO SMMWC*****

AUTHORIZATION SECTION:

Your Name: _____ Property Address: _____
Designated
Proxy Holder: _____ Number of Shares: _____ Share Certificate(s) #: _____
Your Signature: _____ Date: _____

Note: By signing this form you are assigning your voting rights to another individual.
This proxy may be revoked by written notice provided to SMMWC, by a subsequent proxy executed by the Shareholder or by a vote directly from the Shareholder.

Return Completed Authorization To:
SAN MIGUELITO MUTUAL WATER COMPANY
Drop off: SMMWC Office located at 1561 Sparrow Street or
The SMMWC drop box located at the SLBE P.O. Boxes
Mailing Address: P.O. BOX 2120
AVILA BEACH, CA 93424-2120



A mutual water company serving the San Luis Bay
Estates Area
Post Office Box 2120 – Avila Beach, CA 93424-2120
Phone: 805-595-2348
www.smmwc.com

SAN MIGUELITO
MUTUAL WATER COMPANY

