

Water Words

January 2014 Newsletter
Winter Edition



President's Message

Dear Shareholders/Customers,

For 2014, the SMMWC Board approved a modest increase of 2 percent to the sewer, water and capital charges. The increase is because of rising operating costs in electricity, chemicals, fuel and supplies as well as to continue to fund our reserves. Please see the Rate Change article for further information. This increase was half of the 4 percent increase that was originally scheduled for 2014 and is less than \$3.00 per month for the average Residential customer.

As 2013 drew to a close, your water company moved into its permanent office, maintenance & operations building located behind Cal Fire Station #62 on Sparrow Street. For those of you that have forgotten, we received notice that our lease was being cancelled effective October 2013. Upon checking lease rates in our service area, the Board decided to take advantage of lowered property values and purchased Lots 17 and 67 with capital reserve funds.

Lot 17 contains our water treatment facility and pumping station, vehicle parking and storage. Our new office, maintenance and operations building is on Lot 67 (1561 Sparrow Street). Special thanks go to General Manager Rick Koon, Office Support personnel Michelle Edson and Dawn Barlow for their tireless efforts in coordinating the design and construction which resulted in the building coming in on time and well below estimated costs. There will be an open house for all to attend from 4:00 p.m. to 6:00 p.m. on Friday, February 21, 2014. We look forward to seeing you there.

In addition to routine maintenance and repairs, we continued our efforts in replacing 1960's vintage sewer force mains. Specifically the force main closest to the creek under the Bob Jones trail was replaced and moved further away from the creek. Another force main along Avila Beach Drive below the San Luis Bay Inn is being replaced.

I read an article in the January 15, 2014 paper about fines approaching \$250,000 being levied on a water district north of ours. I am thankful to our staff for their prompt and successful response efforts during the year when various emergency situations occurred. Thankfully, nothing affected nearby waterways. Avoiding emergency situations is a priority for the SMMWC Board and is why we are replacing At Risk portions of our system.

In addition to continuing with our capital improvements in 2014, we look forward to our website's launch which will contain historical documents, company history, FAQs and other useful information for you.

Unfortunately all is not good news. Given our continuing drought conditions, your board has had to implement a Stage I Voluntary Conservation condition requesting all of us to voluntarily cut back usage 10%. Depending on the amount of water Mother Nature provides this winter, there may be a need to implement Stage II Mandatory Conservation later on this year. More specific information will be provided on these matters at that time.

I again sincerely thank our volunteer Board and our office and field staff for their excellent work in 2013 and look forward to continue working with each of you in 2014.

Sincerely,



John Delehant
President, SMMWC Board of Directors

How SMMWC Rates are Established

The water rates for many Central Coast agencies are increasing 6% to 12% per year and are now comparable to SMMWC's and may exceed our rates in the future. These increases can be attributed to rising costs in employee benefits and pensions, increased operational costs, aging infrastructure, stricter regulatory requirements and new costs associated with acquiring supplemental water. The primary revenue source for many of these agencies is development fees or "hookup" fees. But as development has all but stopped, these agencies' rate payers must now assume the revenue burden. (This is the major difference in "why" SMMWC only modestly increases its rates.)

SMMWC's primary source of funding is from water and sewer services charged to its Residential, Commercial and Irrigation Shareholders/Customers. 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 Projects (Reserves). The SMMWC Board of Directors sets your rates for these services annually based on adjustments to the Sewer Charges, Water Availability Charges, Water/Sewer Capital Replacement fee and the Water Usage rates. Every 5 years the SMMWC Board reviews the water usage rate structure/revenue model in order to maintain equality for each type of user group.

As a mutual water company each of the major customer groups; Residential, Commercial, and Irrigation, is slated to pay their fair share of the costs based on usage and impact on the SMMWC system. For example if residents as a group use half of the water supplied by the company, they should pay half of the cost. Similarly, if commercial generates one-third of the sewage they should pay one-third of the cost of providing sewer service. SMMWC rate structure reflects these goals.

In the past, the rate structure/revenue model was reviewed in 2007 and again, as scheduled, in 2012 in preparation of the 2012 budget. During the 2007 to 2012 period, SMMWC staff found that overall the Residential user group decreased their usage, while the Commercial users increased their water usage. These changes in the usage patterns warranted the addition of new usage tiers to the 2012 rate structure/revenue model in order to maintain the balance of revenue vs. usage for each user group.

The SMMWC Board sets the actual rates (charges) based on projections of Operations, Maintenance and Administrative expenses, State Water Delivery costs, proposed Capital Projects and the continued funding of our Capital reserves. The SMMWC Board plans to increase rates at a modest 4% per year. This increase can vary due to prior year usage (income) amounts or lower projected expenses.

For example, in 2008 there was a 2% increase. In 2009, 4% increase. In 2010, 0% increase. In 2011, 4% increase. In 2012 the addition of new tiers increased rates an average of 3%. In 2013, 2% increase. For 2014 rates will increase 2% (as explained in more detail in the next article).

Overall for the past 7 years, the SMMWC Board has kept the rate increase to a minimal 2.4% yearly average, which for the average Residential customer is about \$3.00 per month.

SMMWC Rate Changes for 2014

For the 2014 year the Board increased rates by a modest 2%. No changes made in the gallons used per month usage tiers or in the predicted water use. This increase is equal to the rate increase for the past 2013 year.

As described in the President's message, the Board of Directors has approved, for 2014, a 2.0% increase to the base Sewer Rate, a 2.0 % increase to the Water/Sewer Capital fee, a 2.0% increase to the Water Availability Charge.

Here are the new usage tiers and rates for 2014:

Gallons Used per month	Charge per 100 gallons
0 to 1500	\$ 0.000
1500 to 3500	\$ 0.416
3500 to 15000	\$ 1.004
15000 to 50000	\$ 1.015
50000 to 120000	\$ 1.025
Over 120000	\$ 1.132

For SMMWC we expect revenues in 2014 to be increased by \$48,000.00. Increased expenses in Operations & Maintenance and General & Administrative costs account for \$23,000.00, while the other \$25,000.00 will be used to increase our State Water and Capital reserves. The nice return we usually got on our reserves put into CDs is significantly reduced in today's financial climate and the money market rate is minimal.

In 2014, for Residential customers the monthly Water Availability charge will be \$41.66 (up \$0.83) and the base Sewer charge will be \$47.97 (up \$0.95). These charges include a Water Capital Replacement fee of \$14.33 per month (up \$0.28) and a Sewer Capital Replacement fee of \$14.33 per month (up \$0.28). For Commercial accounts, the Sewer charge will be \$47.97 per month per 3,000 gallons of wastewater (up \$0.95).

For the average Residential customer, who uses 5,000 gals per month, the water bill will increase \$1.29/mo. For Residential customers using 20,000 gals per month, the water bill will increase \$4.24/mo. The sewer bill for all Residents will increase by \$0.95/mo.

For Commercial and Irrigation accounts, their Monthly Water Availability Charge is based on meter size. A copy of the 2014 rate schedule and budget can be obtained from our office staff.

We've Moved

After many years of renting our offices in the Blue Heron building, we have completed the construction of our new Maintenance and Operations Building. We are now 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. The new office also has a payment drop slot next to the front door for afterhours use.

Use SMMWC ACH debit

A number of our customers use their Bank's or Credit Union's "Bill Pay" option. It is important to know that there usually is a Banking fee charged to the Customer and that their payment is not directly transferred to SMMWC. When using "Bill Pay" Customers accounts are immediately debited but the payment is held until just before the Customer's "pay by" date. Then their Bank sends a request to another check processing company to write the check to send to SMMWC. What a Customer believes is an electronic transfer of their payment, saving postage, still arrives at SMMWC by a paper check and the Customer is charged a processing fee.

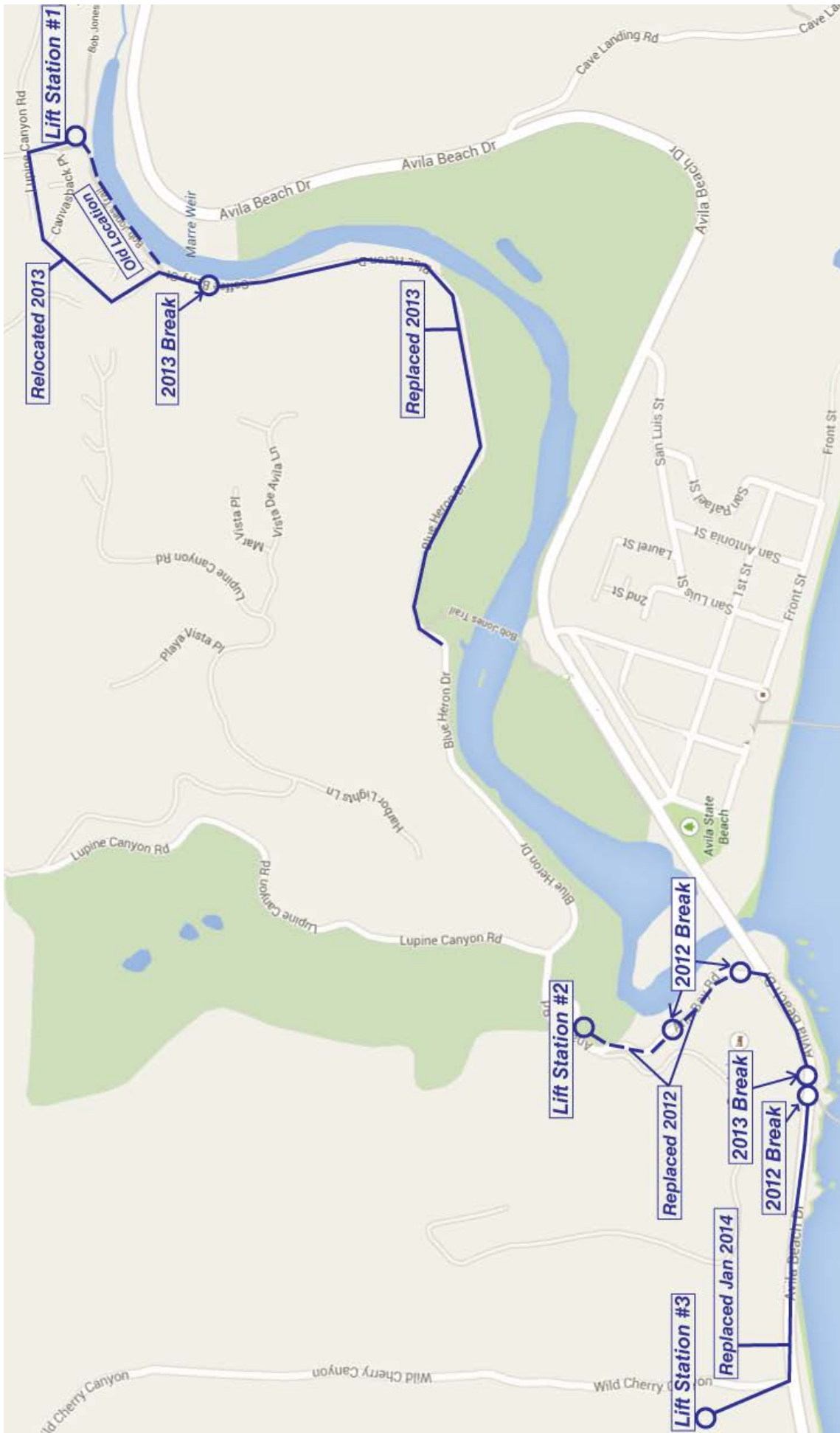
Further, any type of interruption in the "Bill Pay" process may cause the payment to arrive late and be subject to a SMMWC late charge. Many of our Customers found this out the hard way over the Thanksgiving Holiday and weekend.

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.

Capital Projects: Repair or Replace?

From roadways to underground piping this is one of the biggest questions facing Cities and the Utility Industry in today's world. In late 2012 the SMMWC Board asked staff to do a risk analysis of SMMWC infrastructure identifying problem areas. SMMWC staff identified the highest risk potential coming from our sewer force mains. This conclusion was based on the age of the pipes (45 years old), type of piping materials (thin wall PVC), location (adjacent to waterways), and history of repairs (several pipe fatigue breaks within a short time span).

In 2013 the SMMWC Board authorized using \$500,000 of Capital funds to proceed with the replacement of these at risk force mains. A map showing the replacement sections, break locations and new and old pipe locations is on the next page.



Capital Projects for 2014

This year our Capital Projects focus on the replacement of Lift Station #1 pumps and check valves. We continue to replace aging pumps with newer, electrical efficient pumps. This will allow us to run our equipment less and in some cases, during off peak hours at a lower kilowatt/hour rate.

By far our largest project for 2014 is completing the replacement of the at risk portions of our 45 year old sewer force mains. SMMWC started this project in 2013 with the replacement and relocation of the Lift Station #1 to Lift Station #2 force main. Currently we are replacing the force main from Lift Station #2 to Lift Station #3.



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