

PETE'S MOUNTAIN WATER COMPANY ANNUAL MEETING REPORT

September 20, 2019

The Board of Directors of Pete's Mountain Water Company (PMWC) present the annual report for the Company. The report covers our recent activities and financial information through June 30, 2019. Please visit our website (<https://www.petesmountainwatercompany.com/>) for more detailed information and background documents, and feel free to contact any member of the Board to obtain further information, ask questions, or express concerns.

Water system operator

Phillip Merrill (Merrill Water Systems) continues to operate the system, to be responsible for required water system testing and reporting (see below), and to conduct routine and ad hoc maintenance. Mr. Merrill has also been a valuable resource throughout the water system upgrade, advising the Board and assisting with some management of the project. Mr. Merrill communicates frequently with the Board as needed, files a monthly report to the Board, and either attends or is available for questions at Board meetings. He is the first point of contact if there are service or quality problems with your water supply: (503) 734-7400, info@merrillwater.com.

Status of repairs and improvements

After two years of planning, financing, and work by the PMWC Board, Merrill Water Systems, RH2 Engineering, and Schneider Water Services, the upgraded system is fully functioning. This section of the report provides (1) a summary of improvements made to the system, (2) the current status of water production, and (3) what our options are going forward.

System improvements included the following:

- Cleaned out well #1 and installed a new pump, motor, and a transducer to accurately track the level of water in the well.
- PGE electrical service was upgraded and consolidated into one main transformer.
- Replaced the electrical wiring through underground conduits connecting the two wells, reservoir, and control system in the pump house.
- Installed a completely upgraded control system with expanded capabilities for monitoring and managing the system more effectively, efficiently, and remotely.
- A generator that will automatically power the distribution pumps in the event of a power failure, thus eliminating any future "boil water" notices (unless the water in our reservoir is depleted as a result of an extended power failure), is currently on back order.

However, we are disappointed to report that well #1 is producing significantly less water than anticipated. We do not have enough information at this time to be able to report why water production is less than expected. Data indicate that the level of water in the aquifer is dropping. Contributing factors likely include an increase in the number of private exempt wells on Pete's Mountain, progressive depletion of the aquifer, and a pattern of gradually increasing temperatures and lower precipitation to recharge the aquifer during the summers.

The Board is researching possible remedies. The primary goal is to provide domestic water for all our members and enough water for them to provide outside irrigation for up to ½ acre, which is consistent with the legal limitations on outside water uses.

Current status of water production

Schneider Water Systems and RH2 Engineering have provided information in response to our questions about the status of the system and our options going forward, which are summarized here.

During the heavy irrigation season, well #1 only produced 40-50 gpm and could only operate for 8-10 hours before shutting down for 36 hours due to low water level. Well #2 continues to serve as the primary well, with well #1 augmenting it when demand is higher. Well #2 has been producing 80-100 gpm for long periods of time, but was drawn down to a level of only 13 feet above the pump during our heaviest irrigation period in August. The water level must be at least 10 feet above the pump to avoid damage to the pump. Low water level prompted the irrigation restrictions that were imposed last month.

Can we increase current system capacity?

The options for further rehabilitation of well #1 are very problematic. It is possible that more capacity could be obtained from it if some additional fill at the bottom were removed. However, because the well is not cased, the rehab work could cause a cave-in. In such an event, we would lose the well. We do not believe attempting to deepen the well is worth the risk at this time.

Our expert consultants advise us to focus on improving well #2 to increase supply. We may improve production of well #2, which is 50 feet deeper than well #1 and is cased for most of the depth, by removing ~35 feet of debris at the bottom of the well, lowering the pump and replacing it with a more efficient one. We have received a bid of \$63,794 for this project and, upon securing financing, expect to authorize the project this winter.

Is it feasible to add another water source? Would doing so impact our water right?

This depends on the goals of PMWC and its users. Our primary obligation is to provide sufficient water for domestic use for all our members. If the Company could achieve marginally better water management by current users (reduce demand) and/or an increase in water available from well #2, that would allow reasonable capacity for household and irrigation uses and alleviate the urgency for finding another water source. Our experts recommend that we work to reduce demand during summer months by educating members about best irrigation practices, emphasizing how much they are allowed to irrigate (per OWRD and PMWC regulations) and that Pete's Mountain is within a ground-water limited area.

If the goal is to significantly increase our pumping capacity so that we have fewer restrictions on outside water use, or could potentially permit new homeowners to join our system, then a new water source is needed. If water levels continue to drop, a new well may be necessary in any event.

If adding another well to the system is deemed the likely best option, the most cost-effective way to do that may be to purchase an easement to an existing well and take over operation and maintenance of that well. Otherwise, we would need to drill a new well at our current or some other location. A new water source is a very expensive long-term solution. If it is at another location, it would require complicated linkages to the current reservoir and distribution system. It could also require changes to our current water right.

Even though it is a substantial expense, is it advisable to invest in installing remote readable water meters to help manage usage?

Remote readable meters will allow better conservation measures. Having more immediate information about usage will allow the Board and each member to identify excessive use, especially leaks, more promptly.

Is there evidence that the aquifer is declining? If so, how do we plan for the long term?

The data indicates a decline in water levels, and it is reasonable to assume that water levels may continue to fall unless demand is reduced. This reinforces the need for PMWC members, as well as other households with private exempt wells in the Pete's Mountain area, to comply with OWRD regulations to irrigate no more than ½ acre. If that is done, PMWC may be able to continue as is, and the aquifer may be sustained indefinitely. The problem is greater than just PMWC. It is a regional problem that OWRD needs to address.

Required reporting, permitting, certification, and insurance

Each year, PMWC is required by law to certify and submit data pertaining to water supply and quality. The following reports are on our website <https://www.petesmountainwatercompany.com/>) for your review:

- Water quality report, submitted to the Oregon Health Authority (OHA) by the end of June.
- Water level report, submitted to the Oregon Water Resources Department (OWRD) by the end of March.
- Water usage report, submitted to OWRD by the end of the calendar year.
- Backflow testing report, submitted to OHA by the end of March for the prior year.

In order to comply with our Oregon Health Authority backflow testing requirement and to offer a cost-effective service for members, PMWC has engaged EcoBackflow to test backflow devices for any members who do not submit their own test results. Any member who did not submit backflow test results to our Manager (by September 1st this year) is being contacted by EcoBackflow, who will perform such tests. The members need to cooperate with the testing company to conduct the tests. They will be charged \$35 per device, which will be added to their water bill. Next year we expect to have testing done prior to the irrigation season when backflow devices are in heaviest use.

PMWC has renewed the general liability insurance for \$1 million that was in effect when we purchased the system. At this time, we have opted not to purchase officer liability insurance. With the completion of the extensive improvements, together with new equipment and controls in the pump house, we have increased the all-hazards insurance coverage on our pump house and equipment to \$450,000, an amount estimated by our primary contractor as adequate to replace those "above ground" items. We have not sought earthquake insurance because of the cost, deductibles and exclusions.

Monthly billing and accounting

Bills continue to be managed by our accounting firm, Tabor Accounting Group, 7501 SW Findlay Rd., Durham, Oregon 97224, (503) 598-1011. This is your first point of contact if you have questions about your bill: ruthv@taboraccountinggroup.com.

The Board has not reached a decision about using an electronic billing system. One reason is that we hope to link an electronic billing system to remote readable meters such that water usage information could feed directly to the electronic billing program. That would save the cost we spend on meter reading and paper billing each month. However, upgrading both meters and the billing system could be more complex and expensive and requires some further research. We expect to make a decision on the remote readable meters and electronic billing system during this fiscal year. For now, a paper check or e-billpay check are accepted forms of payment.

Financing the system

Even with cost-savings revisions to the project, the total costs of purchasing and upgrading the water system were \$983,000, which substantially exceeded the engineers' earlier estimates and the amount previously requested from the State's Safe Drinking Water Revolving Loan Fund (\$680,000). The Board received approval for an additional \$303,000 from the loan fund to cover the additional essential costs of improvement. Because \$234,000 was forgiven from the original loan, the net amount we will be responsible for repaying is \$749,000. The additional loan amount will necessitate an increase in the monthly amount each member pays for the loan servicing fee. Beginning January 1, 2020, the monthly membership/loan repayment fee will increase from \$29.00 to \$49.00. Even with the increase in monthly loan servicing fee, PMWC base charges remain far below those of neighboring cities.

The combination of the proposed improvements to well #2 (described above), the installation of remote readable meters and the installation of the generator will cost approximately \$140,000, a relatively modest expense. We believe we will be able borrow the funds for these expenses through the same revolving loan fund from the State of Oregon, with a very low interest rate and the possibility that a portion of the principal would be forgiven, as was the case with our current loan. We are currently exploring that possibility.

Financial reports

Attached is a copy of our **Financial Statement**, which includes the Balance Sheet as of June 30, 2019, the Profit and Loss, and the Statement of Cash Flows for 12 months ending June 30, 2019. As you will see, there is a small loss of approximately \$13,154.00, which is due to the accrual of \$15,030.00 of loan interest. This is more than covered by the monthly members/loan repayment fee collected by the Company.

We have added significantly to the assets as we have repaired and improved the wells, pumps, controls, electrical supply, monitoring and backup components of the system. We have correspondingly increased the loan amount.

The revenue collections are consistent with expectations, although a bit lower than previous years. Our cash balance remains above \$130,000.00, which is sufficient to maintain and operate the system.

The large accounts payable balance is due to the improvements completed on the well. We are still waiting for some loan reimbursements from the Safe Drinking Water Revolving Loan Fund.

The expenses are higher due mainly to the replacement of the pump in well #2 in July, 2018, and the accruing interest on our State loan. The higher expenses also include extra management time needed during the construction period.

Annual membership meeting scheduled

Please attend the membership meeting and vote for the two Board positions. A form of proxy is enclosed should you prefer to vote by mail. Whether you submit your proxy in advance of the meeting or not, you are cordially invited to attend the annual PMWC membership meeting scheduled for October 7, 7:00 p.m. Once again, Ken and Carol Roberts have graciously volunteered their carriage house as a meeting place: 2700 SW Schaeffer Road. Light refreshments and drinks will be provided. Please RSVP to info@petesmountainwatercompany.com.