

# **PETE'S MOUNTAIN WATER COMPANY ANNUAL MEETING REPORT**

May 25, 2018

The board members of Pete's Mountain Water Company (PMWC) present the annual report for the Company. The report covers our recent activities and financial information through March 31, 2018. 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.

## **Acquisition of the water company from Suzanne Weber**

The purchase of the Pete's Mountain Water Co., Inc. from Suzanne Weber was completed on November 30, 2017.

## **Organization and governance of the company**

Pete's Mountain Water Company is now structured as a not-for-profit corporation for the benefit of its members. All but three of the previous customers applied for and became members of the new company. Those three elected to rely solely on existing wells on their properties.

We have adopted final versions of organizational documents, including bylaws and system rules and regulations, which are posted in the documents section of our website. These documents provide essential guidance for our members regarding how the company operates and how to interact with the board. As a mutual benefit association, each household account has a share of the company. Therefore, it behooves you, as co-owners and as users of the system, to become familiar with these processes.

## **Financing the system**

PMWC obtained a low-interest loan from the Oregon Health Authority's Safe Drinking Water Revolving Loan Fund. The loan has been approved for \$680,000 at 2.15% annual interest for a term of 20 years. We spent approximately \$385,000 of the loan for the due diligence, engineering consultation, and purchase of the system. The balance of the funds will be used to repair and upgrade the system.

Because our loan is associated with providing more sustainable and safe drinking water, approximately 30% (\$234,000) of the principal is expected to be "forgiven," i.e. does not need to be repaid. Thus, we are receiving up to \$680,000 in loan funds but only are required to repay approximately \$446,000. This significantly reduces the ultimate cost to members and permits us to pay for the system and improvements with a small monthly fee to cover the loan payments. Your bills now include the monthly ownership fee of \$29 to repay the 20-year loan.

## **Operating the system**

The Board hired Merrill Water System Management to operate the system, to be responsible for required water system testing and reporting (see below), and to conduct routine and ad hoc maintenance. The management company will also oversee and prioritize recommended

upgrades relative to their importance to the system, availability of suitable contractors to accomplish the tasks, and available funds. Phillip Merrill files a monthly report to the board and is communicating more frequently as needed. He is the first point of contact if there are service or quality problems with your water supply: (503) 734-7400, [info@merrillwater.com](mailto:info@merrillwater.com).

### **Required reporting, permitting, certification, insurance, etc.**

Each year, PMWC is required by law to submit and certify data pertaining to water supply and quality. These include:

- Water quality report, submitted to the Oregon Health Authority (OHA) by the end of June. (draft enclosed).
- 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, submitted to OHA by the end of March for the prior year. (See additional information below.)

PMWC has renewed the general liability insurance for \$1 million in effect when we purchased the system. At this time, we have opted not to purchase officer liability insurance.

### **Monthly billing and accounting**

Bills are 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](mailto:ruthv@taboraccountinggroup.com). For now, a paper check or e-billpay check are accepted forms of payment. The billing system will be upgraded in the coming months, such that ACH and direct deposit payment options will be added.

We don't expect to change our water or other rates in the near future. We will reassess the rate structure after upgrades to the system are completed and we have enough experience and relevant data for such an analysis.

### **Policy for late payments and new customers**

The board has adopted the following policies:

If a bill is 60 days past due the customer will receive the following notice: *If payment is not made by [current month] 26<sup>th</sup>, your water will be turned off at the end of [current month]. A \$250 fee will be charged to reactivate service.*

Customers who are 90 days or more past due will receive a certified letter with notice of pending termination of membership and access to water from the system.

Adding new customers: The board has assessed that we will need at least a year *after upgrading the system* to assess whether it has the capacity to accommodate new customers. Therefore, we will not entertain new connections at this time.

## **Status of repairs and improvements**

As stated above, the loan commitment we received from the Oregon Safe Drinking Water Revolving Loan Fund substantially exceeded the purchase price for the water system. We plan to use the additional loan funds for the costs of repairs and improvements to the system to address three primary concerns. First, we intend to renew the capacity of the system to meet the water needs of our members during the high water-use season. Second, we need to improve the reliability of the systems. Third, we want to provide redundancy during power outages we occasionally encounter.

We retained the engineering firm RH2 Engineering to design the upgraded system and draw plans from which we would procure construction bids. They have been much slower in completing their work than we expected. At this stage, two things are readily apparent. First, costs of the upgrades and improvements will be higher than originally estimated last fall. Second, because of the time required to finalize drawings, secure bids and permits, and to actually begin construction, the improvements will not be completed prior to the 2018 high-use watering season. For that, we apologize. We relied on information from others and were obviously too optimistic.

Our biggest challenge is ensuring that the capacity we need to meet our water demand during the summer can be met. We are facing two constraints -- the water table level and our pumping capacity. A new, larger pump placed in the original well (inoperable since 2007), would give us the needed pumping capacity. However, water logs show a dropping water level, which suggests that the pump needs to be placed lower than originally planned. The original well is 10 inches in diameter to a depth of 900 feet. It extends another 100 feet, but at a 9-inch diameter. The choice we face is to place a pump at the bottom of the 10-inch diameter section, which has the capacity to pump our full water right of 300 gpm, or to place a smaller pump, which would fit in the 9-inch diameter section of the well, at a much lower level to help ensure it could continue to operate even if water levels continue to drop.

For this critical decision, we sought advice from our water system manager, our water system engineering firm, and Schneider Water Services, who have drilled a large number of wells on the mountain, including our well #2. While our hope was to reactivate well #1 with a pumping capacity capable of satisfying our needs fully on its own, the precarious water level at the 890-foot depth dictated that it will be more prudent to place the smaller pump at a lower depth of 950 feet, even though that would reduce our pumping capacity and require the pumps in both wells to operate simultaneously during the high-water use summer months. So long as the water level does not drop precipitously, the combined pumping capacity should meet our current and future water needs and provide a temporary backup should one of the pumps fail and need to be replaced.

RH2 Engineering is now completing the engineering design and plans for refurbishing and upgrading the system, which after final approval by the board will be posted for construction bids. While we are hopeful competitive bids will come in lower than initial estimates, we still anticipate our costs will likely exceed the remaining \$295,000 available under our loan commitment from the State. One potential source for additional funds would be from the over \$100,000 cash resources on hand. Those are intended to be a cash reserve to cover unexpected costs and cash flow requirements. Based upon our operations to date, it appears we may not need to hold all of those funds in reserve.

However, projected additional costs may exceed amounts we would be comfortable using from the reserves.

We are led to believe that we can request an increase in our loan commitment, but unless and until we have agreed on final plans and secured bids to quantify the final costs of the improvements, it is premature to submit such a request.

### **Annual backflow testing**

The Oregon Health Authority requires approved backflow protection devices for any water service customer whose system includes outside water features such as swimming pools, hot tubs, fountains, or ponds, as well as homes with in-ground irrigation or in-home fire sprinkler systems. Backflow devices must be tested annually before the end of each year.

We will be getting bids from several companies that do backflow testing with the goal of selecting one company to do all testing in order to save money and make it more convenient for the members, and to assure full compliance in meeting the OHA's requirements. We are also assessing whether we can prudently cover those charges as a water company expense within our current rates. Members who have routinely scheduled backflow testing may wish to postpone that testing until we announce our final decision.

### **Financial Report**

Attached is a copy of our **profit and loss cash statement** for January 1 through March 31, 2018. It is too early to make accurate statements about our anticipated income and expenses on an annual basis as the third quarter of the year is expected to constitute a majority of our revenue with only modest increases in expenses during that time. Furthermore, three months is too short a time within which to confidently predict our ongoing normalized expenses.

Nonetheless, it is an encouraging sign that operating expenses to date have been within our initial budget. As the year progresses, we will continue to gain valuable information regarding our anticipated costs and revenues.

Also attached is a **balance sheet** as of March 31, 2018, which shows, among other things, our comfortable current cash reserves of over \$135,000.

We are not including any 2017 financial information because it relates to Suzanne Weber's operation of the water company, which is not particularly relevant to ours after converting to a member-owned not-for-profit organization.

### **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 June 11 at 7:00 p.m. Once again, Ken and Carol Roberts have graciously volunteered their carriage house as a meeting place: 2700 SW Schaeffer Road. Please RSVP to [info@petesmountainwatercompany.com](mailto:info@petesmountainwatercompany.com).