Status Report

2013 Committee Recommendations

Audit Results

Attorney Meetings

2013 Committee Recommendations

- Cease debt finance efforts
- Keep $600 base rate
- Implement following:
  - Install new booster station at Tank 1
  - Purchase spare 300 hp motor
  - Relocate Tank 2 feeder line

- Efforts on hold
- Done
  - Insufficient funds (est. $250-350K req'd)
  - Complete
  - Complete

2013 Committee Recs Cont.

- Purchase spare 125 HP motor
  - Complete
- Construct housing on Well 5
  - Essentially complete
- Implement watering restrictions
  - Done
- Complete surveys
  - Done
- Develop cash plan for Tank 1 Replacement
  - Completed (to be presented this meeting)

2013 Committee Recs Con't

- Initiate outside Audit
- By-laws Changes
  - No changes w/o vote of Shareholders
  - BOD not authorized to incur debt w/o vote
- Complete
  - Tabled by shareholders
  - Approved

Restricted Schedule Impacts

- No water outages this season
- Notices of Violation issued
  - 1st Notice (courtesy): 134
  - 2nd Notice (warning): 27
  - 3rd Notice ($200 fine): 6
  - 4th Notice (shut-off): 0

Audit Results

Conducted August 2013

(First ever Formal CLWC Audit)

Audit Findings

Audit Parameter	Findings
• Qualitative aspects of Accounting Practices	• All significant transactions properly recognized – Financial statement disclosures are neutral, consistent, and clear
• Difficulties Performing Audit	• None
• Misstatements	• Corrected (none were material)
• Disagreements	• None

Audit Deficiencies (2)

Deficiency	Response
• CLWC does not have system for tracking capital assets	• Do not have historical data but will track future
• CLWC does not have sufficient separation of duties (i.e. more people involved in finances)	• Cost of hiring independent outweighs benefit…but will implement stricter internal controls/checks within Board going forward

Audit Recommendations

- Internal Controls
  - Someone other than check writer should review bank statements
  - Board review/approve invoices before paid
  - Only board members should have signature authority (Dennis Bell signs checks but he is no longer a BOD member)
  - At least 2 individuals should be involved in billing and receiving process

Attorney Meetings

CLWC Legal Authority

Water Rights

CLWC Legal Authority

- BOD indemnified by Idaho Code
- Articles and By-laws give BOD authority to:
  - operate and manage water system
  - impose fines for violation of irrigation schedule
  - restrict or curtail delivery of water
- One or more notices of violation should be sent to offenders before imposing fine or curtailment

Water Rights

- Ownership of water rights successfully transferred from Developer to CLWC
  - Each Comore Loma lot is now assigned to a specific water right
- CLWC currently has sufficient rights to cover 520 lots
  - We have pumping capacity for 425 homes per DEQ requirements
- Developer has additional rights for 300 more lots

Engineering Report

Overview
Findings & Deficiencies
Conclusions & Recommendations
Alternatives/Costs
BOD Thinking

Overview

- Scope
  - Describes existing CLWC system
  - Evaluates present condition
  - Analyzes alternatives and proposes course of action
- Focus
  - Well supply
  - Storage and pumping deficiencies/needs
  - Justification of capital improvements (meet DEQ req'mts)

Report Findings & Deficiencies

- System lacking 2032 gpm for full demand plus Fire Flow (FF = 1500 gpm)
- Hydrant spacing marginal in older division
- Tank 1 undersized
- Tank 2 insufficient to meet FF demand
- *"…patrons have shown continued determination to use large amounts of water…requires extraordinary demand for costly infrastructure…"*

Report Conclusions & Recommendations

- Use 30-yr horizon to plan for and construct facilities
  - Finance via SRF loan
- Install water meters to reduce demand
- All water rights should be transferred to CLWC
- Transfer Tank 2 BPS to Big Bend BPS
  - Would then house 2 sets of pumps
  - Serve as BPS for both Zone 3 and Zone 4

Report Alternatives/Costs

- O&M costs a major consideration for each
- 12 Alternatives considered
  - Narrowed to 4
    - Alt 8 - $4.88 million (no add'l annual O&M given)
    - Alt 10 - $3.26 million (add'l annual O&M $106K)
    - Alt 11 - $3.12 million (add'l annual O&M $85K)
    - Alt 12 - $3.66 million (add'l annual O&M $94K)
  - Report recommended Alternative 11

Alternative 11 Components

Item	Cost
1. Replace valves and add hydrants	• $163,400
2. Add flow meters to pumps	• $42,000
3. Replace Well 1	• $250,000
4. Well house for Well 1	• $432,800
5. Tank 1 Booster Station	• $492,200
6. New 422K gal storage tank for Zone 1	• $395,400
7. Additional 342K gal companion storage Tank 2	• $344,600

Alt 11 Components Cont.

Item	Cost
8. Upgrade Tank 2 BPS to (3) 40 hp pumps	• $ 110,000
9. Loop Zone 3 w/ 8 in pipe	• $ 50,700
10. Portable trailer-mounted 300 KW generator	• $ 150,000
11. Water meters (1 “)	• $ 617,800
12. SCADA improvements	• $ 15,000
	$3,063,900
	$ 61,000 (admin, etc.)
	$3,124,900

BOD's View

- O&M costs are eating our lunch (primarily electricity/wear and tear during peak watering season)
- Alternatives presented all too expensive
- Need to "cherry-pick" line items for a hybrid approach
  - Because DEQ has accepted report, no further approval required for included line items
  - Per attorney review, system is grandfathered -- *line item improvements included in report DO NOT trigger retroactive FF compliance req'mts*

What's Truly Needed

- Backup pumping capability
  - Supply
  - Boosting
- Improved fire protection
  - More storage capacity
  - Backup power
  - Sufficient hydrants
- System Control and Data Acquisition (SCADA) hardware/software need updating

3 Options to Consider (Engineers' Estimated Costs)

- Minimum Requirement (Option A)
  - $1.2 to $1.4 million
- Engineer's Alternative 11 – w/o meters (Option B)
  - $2.6 million
- Board "Hybrid" (Option C)
  - $2.9 million

Option A1 ($1.4 million)

- Minimum Req'd Action
  - Booster station at Tank 1 ($492K)
  - Additional, larger "Tank 1.1" ($395K)
  - Add flow meters at existing pump stations ($42K)
  - Add hydrants and replace valves ($163K)
  - SCADA improvements ($15K)
- CASH financed

Option A2 ($1.2 million)

- Minimum Req'd Action
  - Booster station at Tank 1 ($492K)
  - Additional, larger "Tank 1.1" ($395K)
  - Add flow meters at existing pump stations ($42K)
  - Add hydrants and replace valves ($163K)
  - SCADA improvements ($15K)
- Loan financed

Option B ($2.6 million)

- Option A “Must Do’s” plus
  - Replace Well 1 ($250K)
  - Well House for Well 1 ($433K)
  - Additional 340K gal Storage Tank “2.1” ($345K)
  - Upgrade Tank 2 BPS ($110K)
  - Loop Zone 3 w/8-in pipe ($51K)
  - Portable 300 KW generator ($150K)

Option C ($2.9 million)

- "Hybrid" Approach
  - Option A "Must do's", plus
  - Drill new Well 7 ($225K)
  - Well house and pumps for Well 7 ($373K)
  - Build new 530K gal Storage Tank 3 ($470K)
  - Complete Big Bend BPS ($352K)
  - Portable trailer-mount generator ($150K)
  - Water line from Zone 4 to Tank 3 ($124K)

Why Option C?

- We get the important long-term things we need
  - Backup well for $85K less
  - Larger storage higher up the hill benefits WHOLE community
  - Greater fire protection capability
- Test hole verified there IS water at Well 7 site
- Reduces long-term O&M costs over Option B
- CLWC has control of entire system
- Joint Venture mutually beneficial over long-term
  - DEVELOPER PICKS UP TAB for new well and bulk of storage, lowering cost to each homeowner

Water Meter Option

Engineer Report: "…*meters are only effective way to control demand…"*

- Clear evidence that meters do control demand, but cost is not insignificant
  - "Additive M" (separate vote)
  - 1" meter per lot (owner can pay upgrade to 2")
- Alternative is to continue billing based on acreage irrigated vs actual water used

Meter Cost
(Engineers' Estimated Cost)

Option	Additive M	
Type Funding	Cash (4 yrs)	Debt (30 yrs)
Cost	642K	642K
Annual Debt Service	160K	26K
Annual share from:		
320 homeowners	$500	$80
Quarterly Cost per:		
homeowner	$125	$20

Going Forward Assessment Basis

- BOD Recommendations
  - Vacant lots pay portion of improvements
  - Future builders pay one-time “tap fee”
    - Triggered by request for service
    - Amount to be determined
    - Pays for accrued benefits provided by CLWC investment over the years

Funding

The Good, the Bad and the Ugly

Cash Funding

Pros

- No long term lock-ins
- No government oversight/ regulation
- Can pay as we can afford
- Helps promote conservation
- Ensures shareholder buy-in and ownership of “The Plan”

Cons

- Will require significant assessments and/or rate increases over next 4 years
- Limits number of improvements achievable
- Can’t start until we have cash in hand

Debt Funding

Pros

- SRF Loan has attractive terms
  - 30-yr at 1.25% interest
  - 7% origination grant effectively offsets interest
- Less monthly cash outlay for shareholders
- Can implement by next season
- Shareholders *NOT* exposed to personal liability/liens (per DEQ)
- *Developer treated as lot owner (i.e. pays like others)*

Cons

- Lots of strings attached
  - Additional administrative and labor costs incurred because Federal requirements
  - Significantly reduces buying power of funds (up to 40%)
- 30-yr bondage - what if new needs arise in 15 years?
- Nobody likes debt

Developer Treated as Lot Owner…

- If CLWC willing to accept Division 25 early, Developer would pay expansion-related share of loan
- Increases participation pool and reduces individual costs
  - Developed lots – 320
  - Non-Skidmore vacant lots – 120
  - Skidmore vacant lots – 80

How does it all compare??

Summary View – Main Options

Option	A1	A2	B	C
Type Funding	Cash	Debt	Debt	Debt
Cost	1.4 million	1.2 million	2.6 million	2.9 million
Annual Debt Service	350K	46K	102K	115K
Annual share from:				
320 homeowners	255K	34K	74K	52K
120 vacant lots	95K	12K	28K	20K
80 Skidmore lots	0	0	0	43K
Quarterly Cost per:				
homeowner	$198	$26	$59	$40
vacant lot	$198	$26	$59	$40
Skidmore lot	$0	$0	$0	$134

Summary View – Meters

Option	Additive M	
Type Funding	Cash (4 yrs)	Debt (30 yrs)
Cost	642K	642K
Annual Debt Service	160K	26K
Annual share from:		
320 homeowners	$500	$80
Quarterly Cost per:		
homeowner	$125	$20

Next Meeting We <u>Vote</u>!

- 13 Feb 2014
  - 7 PM
  - Sand Creek Middle School
- Between now and then
  - Educate yourselves
  - Information posted on webpage

<u>www.clwcorp.net</u>