

**BLSMWC Capital Improvement Plan
USDA Loan Implications and
Water Rate Structure Summary**

BLSMWC Capital Improvements USDA Loan Approved

USDA Loan Approval

- Two year effort by the Blue Lake Springs Mutual Water Company
- Culminated with our USDA Loan approval on Dec 27, 2016
- Locked in a funding cap of \$12.23M at a low interest rate of 1.875% over a 40 year term

Why is USDA Loan Needed?

- Will replace deficient water mains, and upgrade fire hydrants, pressure reducing valve stations, and booster pump stations throughout approx. 2/3 of the BLS Development that do not meet industry standards
- To meet state mandate, we will be installing new water meters, pressure regulators and boxes to 100% of the residences

Benefit to Shareholders:

- Does not require large up-front out-of-pocket assessment
- Spreads costs over the next 40 years so that current and future homeowners pay their proportional share of the costs

USDA Approved Loan Funding Breakdown

- **USDA Loan funded to cover the following Capital Improvements:**
 - Meter Purchases and Installation (12% of Total) \$1.47M

 - Infrastructure Improvements (88% of Total) to include: \$10.76M
 - Mainline Replacements
 - Pressure Relief Valve Replacements
 - Fire Hydrant Replacements
 - Booster Pump Station 6 Upgrades

- **Total USDA Loan amount approved to be borrowed \$12.23M**

USDA Loan Repayment Most “Fair & Equitable” Approach

- All residences will pay an equal annual surcharge for **“meter purchase & installations”**
 - New homeowners who previously paid for radio read meter in 2016 to be credited back cost in 2017 and included in USDA Loan Surcharge
 - Future new residences will pay initial fee equal to number of annual surcharges already incurred, and included in remaining annual USDA Loan surcharges

- All shareholders with residences and lots will pay an equal annual surcharge for **“infrastructure improvements”**
 - Shareholders with BLMWC approved “combined lots” will pay an annual surcharge amounting to 25% of residences and lots, consistent with the existing rate structure discount

- Required **“USDA Loan Reserves”** will not be part of surcharges, but included within shareholders annual rates
 - Annual Fund Reserve: 10% of USDA annual payment (~\$44K per year) to be deposited monthly until the annual loan payment cost of \$437K is accumulated
 - Short-Term Asset Reserve: Estimated \$30K must be maintained in account

How The USDA Loan Impacts Shareholders Fees

- Shareholder surcharges to start in 2018 payable in addition to shareholder's determined Water Fees (***Rate Structure In Process***)

Estimated Shareholder Surcharge Calculations:

- Total Meter Cost \$1.47M equates to a loan payment of ~\$53K/year; a surcharge of approx. **\$31/year** for each of the 1,705 residences
- Total Mainline/Infrastructure Improvements \$10.76M equates to a loan payment of ~\$385K/year; a surcharge of approx. **\$192/year** for each of 2,001 shareholders with residences or lots
 - The 25 BLSMWC approved “Combined Lots” to be assessed an additional surcharge of **\$48/year** (~25% of residences/lots)
- Annual Surcharges: Residences \$223.; Lots \$192.; Residents w/ Combined Lots \$271.
- ***NOTE: Final loan values & resulting surcharges based on Engineering & Construction bids and awards (RFP/Proposal Reviews in process)***

Homeowner has Financial Responsibility for Mainline from Meter to House

- BLSMWC is not authorized to install mainline pipe on owner’s property from meter (in public right-of-way) to owner’s house
- For all residences with a new meter in the public right of way, the homeowner is responsible for installing the connecting line to the house. This includes those residences that currently have a meter in the back of the house (***Note: This has always been the owner’s responsibility***)

Proposed USDA Capital Improvement Plan “Draft” Summary-Level Project Schedule

Engineering/Design Request for Proposal Issued	April 7, 2017
Engineering Consultant Selection/Award Contract	May 26, 2017
Design Services Phase	6/6/17 – 12/17/17
Bid Construction Contract	1/2018 – 2/2018
Award Construction Contract	March 2018
Construction Phase/Construction Services	4/2018 – 12/2019

“Draft”

Proposed Water Rate Structure Summary

“Draft”

Preliminary Rate Structure Summary

- Determination of the water rate structure for 2018 and beyond is currently still in process with the goal to develop the path forward for a final structure by Y/E 2017
 - Rate structure to be reviewed annually by the Long Range Planning Committee (LRPC), with recommended updates presented to Board Of Directors for approval
- The primary focus is to develop a rate structure that maintains stable & predictable revenue to cover all fixed costs while also promoting conservation through increased usage fees for consumption levels exceeding a determined base usage allocation
- Over the past year, the LRPC conducted monthly usage studies from 339 meters, providing the percentage of monthly cubic feet usage for multiple tier levels, along with the average usage per tier
 - Based on the replacement of remaining old meters with new radio read meters, we plan to continue usage studies with an increased sample size of 633 meters
 - This expanded usage study is planned through 2017, which will provide an improved database to further refine on-going usage by multiple tier levels
- The LRPC recommends maintaining our existing rate structure (base rate + usage fees) while installation of the remaining 1,075 meters progresses over the next 2-3 years

Preliminary Rate Structure Summary

- As we progress toward 100% meter installations, and collect further meter usage data from continued studies, the rate structure will be reviewed and refined
- In 2018, Expansion & Improvement (E&I) expenses are projected to be significantly less than the last few years that were dedicated to new well developments and the capacity fees associated with the CCWD wholesale water agreement
- Future E&I expenses will predominantly focus on the Meter & Infrastructure Improvements with income collected from the USDA Loan surcharges
 - The minimal remaining E&I expenses will be applied to shareholder water base rate and usage fee charges
- The anticipated shareholder 2018 rate structure will be comprised of three fee areas:
 1. USDA Loan Surcharges for meter and infrastructure capital improvements
 2. Base Rate: (a) Cabin, (b) Cabin with meter (water usage up to not-to-exceed monthly cubic foot allocation), (c) Lot, and (d) Combined Lot
 3. Extra Capacity “Usage Fees” charged for additional consumption exceeding the monthly cubic foot allocation. These fees will increase as the volume of usage increases based on multiple rate tiers, to be determined from the final analysis of the LRPC Meter Studies

Preliminary Rate Structure Summary

- In summary, based on the LRPC analysis conducted to date, it is estimated that 2018 shareholder combined fees for (1) USDA Loan Surcharges and (2) Base Rates will be comparable to the existing 2017 Resident & Lots Fees
- For shareholders that exceed the monthly Base Allocation, additional Extra Capacity Usage Fees will be charged at a multi-tiered per cubic foot rate
 - **NOTE**: Monthly usage fees above the base allotment has been part of our rate structure for several years. The proposed change is to implement the multi-tiered approach with increasing costs per cubic foot to promote continued conservation