



BOARD OF DIRECTORS
Connie S. Griffin
Leslie Brister
Steven C. Farrell
Robert Kinzel
Kenneth L. Stone

GENERAL MANAGER
Alan E. Clanin

To: Board of Directors
From: Alan E. Clanin, General Manager
Date: October 18, 2019
Subject: Consolidation with Valley View Park

Valley View Park Mutual Water Company (VVPMWC) has approached Crestline Village Water District (District) requesting the District explore the potential for annexation and consolidation.

Crestline Village Water District was formed in 1954 to supply water to the Crestline area that was served by the Crestline Village Mutual Service Company. In 1979, the Lake Gregory area was annexed after the Lake Gregory Land and Water Company defaulted on its obligation to provide an adequate water supply to its service area and the District was asked to serve the area by the State Health Department. The other smaller areas that have been annexed into the District in recent years have been the result of requests by the mutual water companies or by health authorities.

The District's position regarding annexing and serving water to additional areas has been that we are here to serve, if it is requested by the water company's board of directors, a majority of the shareholders or a state or local health authority and it makes sense for our district to serve the area.

Our Sphere of Influence already includes the Valley View Park area and therefore there is no need to apply to LAFCO for the purpose of annexation into our Sphere of Influence. If the District were to find it feasible to serve water to the VVPMWC and our Board decided to proceed with that request, we would need to apply to LAFCO to annex the area into our District boundaries and VVPMWC would need to vacate its right to serve water to the community before our District would be able to serve water to that area.

Another factor that we must consider is how serving another area will affect our current customers. Our revenues come from the area inside our district boundaries and we are restricted to spending those revenues for the purpose of supplying water in our district area. When we have annexed other areas, the water users and property owners in those areas were required to pay for any required improvements, any existing debt and any expenses that were incurred in annexing that area.

Providing our community with a reliable water system that delivers high quality water for its health and safety needs.

Recommendation:

Direct the General Manager to respond to Valley View Park Mutual Water Company the intent of the District Board to proceed with the feasibility study and establish an amount Valley View Park Mutual Water Company will deposit with Crestline Village Water District to cover cost incurred from the exploratory process which includes but is not limited to:

- Water System Hydraulic Analysis
- Required System Maintenance
- Water Meter Replacement
- Annual Income and Expense
- LAFCO Fees
- System Integration Cost

Letter of Intent

Potential Consolidation of Valley View Park Mutual Water Company (VVPMWC) with Crestline Village Water District (CVWD)

Introduction

According to a report by the US Water Alliance and the UNC Environmental Finance Center titled *Strengthening Utilities Through Consolidation: The Financial Impact*, “The water sector is at a crossroads. Most water systems in use today were built for communities that look different than the ones they now support. Potential financial benefits from water utility consolidation include:

- Economies of scale and operating efficiencies;
- Increased access to capital at a lower cost;
- Lower or equal customer rates for a specified level of service;
- Revenue stability;
- Reduced exposure to regulatory penalties;
- Improved planning and risk management; and
- Increased opportunities for economic development.”

Proposal

The Board of Directors of the Valley View Park Mutual Water Company (VVPMWC) propose initiation of negotiations to determine feasibility of a consolidation with the Crestline Village Water District (CVWD) in order to present to their shareholders for approval the details of said consolidation.

It would be understood by both parties that this potential consolidation is not the result of either parties’ failure to provide the desired services in a high-quality, fiscally sound manner. VVPMWC is currently debt free and free from any known liabilities. It is the understanding and desire of both parties that this is a mutually beneficial consolidation for both parties and their stakeholders. VVPMWC shareholders would receive, in return for the transfer of their system assets, real property assets, and future revenues, future support and stability through economies of scale and operating efficiencies from CVWD’s existing operational capabilities. With the equalization of rates for VVPMWC’s shareholders to CVWD’s current rates (an average increase of around \$8.20 per month for VVPMWC’s shareholders). A consolidation would result in CVWD receiving an additional \$132,631 (approximate) in annual revenues (with minimal related operating expenses). Additional benefits to CVWD would include around 2M gallons per year of locally produced well water with potential for even more from current VVPMWC well assets.

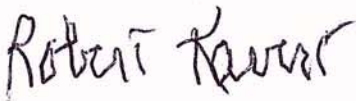
In light of the benefits to both entities, The Board of Directors of the VVPMWC propose that the consolidation costs be divided equally among both entities. Potential consolidation cost may

include, but are not necessarily limited to: study costs, LAFCO fees, meter system synchronization, etc. CVWD would agree to give VVPMWC reasonable advanced notice or estimates of said costs. VVPMWC would agree to deposit with CVWD their share of said estimated costs with CVWD acting as the agent for payment for said costs.

Current Rate Comparison

	CVWD	VVPMWC		
Base	\$25.50	\$30.00		
Water Incl. (HCF)	0.00	6.00		
Water/HCF	\$4.20	\$5.00		
Assessment		\$12.50		
HCF/mo	Total Bill		Difference for VVPMWC	
3.00	\$38.10	\$42.50	-\$4.40	-10%
6.00	\$50.70	\$42.50	\$8.20	19%
10.00	\$67.50	\$62.50	\$5.00	8%
12.00	\$75.90	\$72.50	\$3.40	5%

Sincerely,



Robert Kavert
 President, Board of Directors
 Valley View Park Mutual Water Company