

**A REGULATION OF THE MUSICK MEADOWS MUTUAL WATER COMPANY #2  
(MMMWC#2)  
INSTITUTING AN ASSET REPLACEMENT POLICY TO ENSURE TIMELY REPLACEMENT  
OF MAJOR ASSETS**

Regulation No. 2019 - 01

MMMWC#2 DOES ORDAIN AS FOLLOWS:

**SECTION I – PURPOSE**

The purpose of this regulation is to establish a financial plan (Asset Replacement Plan, or “AMP”) for the replacement of MMMWC#2 Major Assets on a timely basis without undue financial hardship to MMMWC#2 and its Shareholders.

**SECTION II – RESPONSIBILITY**

The MMMWC#2 Board of Directors shall be responsible for developing, implementing, and periodically updating a financial plan that will ensure sufficient revenues are available as Major Assets reach the end of their usable life. Further, the State Water Board requires that Mutual Water Companies implement such a plan.

**SECTION III – ASSET REPLACEMENT PLAN REQUIREMENTS**

An Asset Replacement Plan should include a list of major assets owned by MMMWC#2, along with an estimate life of said assets and an approximate replacement date and cost. The AMP should identify and establish the revenue stream necessary to ensure adequate funds are available to replace these assets at or near the end of their estimated life.

The AMP does not need to include all assets owned by MMMWC#2 as many of those assets can be replaced periodically as a part of the Annual Operating Budget.

**SECTION IV – MAJOR ASSETS**

<b>ASSET</b>	<b>INSTALLATION DATE</b>	<b>ESTIMATED REPLACEMENT DATE</b>	<b>ESTIMATED REPLACEMENT COST</b>
62,000 Gallon Steel Storage Tank	2005	2038	\$190,000
Wells 1 & 2 / Well 4	1958 / 2018	2038	\$100,000
Distribution System	2015	Unknown (50-year minimum)	Unknown
Other Assets	Varies	2038 (Dates will vary but assume 2038)	\$25,000
<b>TOTAL</b>			<b>\$315,000</b>

- The 62,000-gallon water tank was installed in 2005. The 2018 estimated replacement cost is \$130,000. With proper inspections and maintenance, the tank is expected to last

for another 20 years or until 2038. Using a 2% per year inflation rate, the cost to replace the tank is anticipated to be \$190,000.

- MMMWC#2 has 3 working wells. Wells 1 and 2 were drilled in 1958 and Well 4 was drilled in 2018. It is anticipated that in the next 20 years MMMWC#2 will need to replace at least one of these wells. In planning for a new well it is prudent to anticipate that at least one unsuccessful dry hole will be encountered. It is anticipated a new well could cost up to \$100,000, potentially more.
- The distribution system was installed in 2015. Reliable estimates for the life expectancy of polyethylene pipes do not currently exist. Some industry articles indicate a life of over 100 years is possible. A more conservative estimate of 50 years was utilized. However, due to the longevity of this piping system the AMP does not include funding for replacement of the distribution system.
- Other miscellaneous capital needs in the next 20 years should be anticipated and included. \$25,000 has been identified for those other items.

## SECTION V – FUNDING

The total replacement value of MMMWC#2's Major Assets in 2038 is \$315,000. MMMWC#2 has approximately \$100,000 set aside in the Capital Improvement Fund. Using a 2% rate of return, the Future Value of that fund is approximately \$148,000 in 2038 resulting in a deficit of \$167,000 ( $\$315,000 - \$148,000 = \$167,000$ ).

MMMWC#2 performs an audit each year which includes depreciation. Over the last two years depreciation has averaged about \$13,500. MMMWC#2 does not current include depreciation in the annual budget. If depreciation was included as a budget item and collected from the Shareholders, a depreciation amount of approximately \$9000 per year would be sufficient, invested at a 2% rate of return, to generate the \$167,000 required to fully fund the 2038 asset replacement need.

A \$9000 increase in the annual budget would result in an approximate \$120 increase per shareholder. Spreading that increase over 4 years would result in an annual increase of \$30 per shareholder.

## SECTION VI – CAPITAL REPLACEMENT FEE AND DEPRECIATION IMPLEMENTATION

MMMWC#2 hereby establishes a policy that depreciation will be a budget item beginning with the 2019/20 budget in the amount of \$9000 per year.

MMMWC#2 will also established an annual capital asset replacement fee beginning with the 2019/20 budget to be included on the annual assessments, starting at \$30 per share, and increasing by \$30 for three additional years until it reaches \$120 per year per share in 2022/23. Said fee will remain at \$120 per share until such time as it may be amended by this Board.

This fee is over and above the annual assessment for snow removal and water operations which in itself may increase from time to time based on estimates of revenues necessary to provide these services.

## SECTION VII – FUND MANAGEMENT

MMMWC#2 Treasurer will deposit these depreciation funds in the Capital Reserve account in order to keep them separate from annual operating and maintenance funding.

Capital Reserve funds may only be used for replacement of the identified assets. However, if approved by a 2/3 majority of the Board, these funds may be loaned to cover an unexpected need. Repayment of any borrowed funds must be made with three years.

The Board has the discretion to utilize funds identified for "Other Assets" within the AMP but must carefully manage the amount of funds utilized for that purpose so as to not jeopardize future funding of major asset replacements.

#### SECTION VIII – UPDATES

The Board of Directors shall periodically review and update this AMP. A review of the AMP shall occur as a part of each Budget Cycle.

The Board shall undertake a thorough review and update of the AMP, and shall adopt any required amendments once ever 5 years. The first update will be due in 2024. The Board may update the AMP more frequently if the annual budget review indicates changes are required.

It should be noted that allocating \$9000 per year for depreciation will provide sufficient funds to cover all anticipated 2038 replacement costs; however, it will not result in sufficient reserves to cover the 2058 replacement costs. If the \$30 per year annual increase for depreciation was extended from four years to five years, it would come very close to covering the 2058 replacements. The Board should consider adding a 5<sup>th</sup> year when the 2023 Budget is developed.

#### SECTION IX – EFFECTIVE DATE

This Regulation shall take effect immediately upon adoption.

#### SECTION X – VERIFICATION

This Regulation was passed and adopted by the MMMWC#2 Board on May 25, 2019. I certify that the foregoing is a full, true, and correct copy of Resolution 2019-01,

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Mike Leonardo  
MMMWC#2 Board President