



Performance Improving and Cost-Saving Measures

Working efficiently and saving shareholders money is a day-to-day focus of Cal Domestic’s staff. This is one reason that our water costs less than half as much as imported supplies. The Company continues to be a reliable source of low-cost water for its shareholders.

Securing Rights to Low-Cost Local Water Supplies

Purchase of Pumping Rights. The water rights market is extremely competitive and moves quickly. Cal Domestic has been successful over the years due to its financial strength, including having the cash or credit to purchase the water on little notice. Once purchased, the rights provide a permanent benefit, currently producing water at 60% less than the cost of imported sources.

Low Cost Water from Pellissier Co-Tenancy. One source of these rights is the Pellissier Co-Tenancy. As a named Co-Tenant, Cal Domestic has exclusive access to any prescriptive pumping rights that become available for sale within the Co-Tenancy. When acquired, these ownership interests provide additional low-cost water supply resources for the shareholders.

In 2018–19 the Company purchased another 22.50 acre-feet of prescriptive pumping rights, bringing the Company’s total prescriptive pumping rights in the Basin to over 12,317 acre-feet. Prescriptive pumping rights give the Company another tool to maintain predictable, cost-effective supplies for shareholders.

Annual Water Rights Leases. In addition to purchases, Cal Domestic annually leases 50% of the available water production rights offered by the Pellissier Co-Tenancy, which are then allocated to shareholders. The balance is allocated to bonus entitlements or to provide excess entitlement water—offering a long-term, low-cost local water supply for shareholders.

Cadway Provides Access to Low Cost Local Water and Substantial Revenue. Cadway, a Cal Domestic subsidiary, also holds water rights in the Basin and leases those rights to Cal Domestic for the benefit of shareholders.

In addition, Cal Domestic’s tax-exempt structure means the Company cannot sell water to non-shareholders; but Cadway can, enabling regional cooperation. Rowland Water District (Rowland) has a storage and export agreement that allows them to buy Cyclic Storage water and keep it in the Basin, but Rowland is not a party to the Basin Judgment and cannot pump the water out. Rowland pays Cadway to pump its Cyclic Storage water and deliver it through Cal Domestic facilities. This agreement generates roughly \$400,000 to \$500,000 per year in surplus revenue for the Company—an amount that is expected to grow.

Providing Over \$2 Million in Bonus Entitlement to Shareholders

Cal Domestic’s common stock water entitlement is based on the Operating Safe Yield (OSY) of the Basin as set by Watermaster. However, since Cal Domestic maintains leased water rights in reserve, the Board of Directors periodically adopts bonus entitlements. The bonus entitlement in the 2018–19 water year was 0.30 acre-feet, increasing the annual common stock entitlement to 1.60 acre-feet, at a cost of approximately \$1,973,100 to Cal Domestic. The total value to shareholders of the bonus entitlement over the past five years is \$7,831,300. Strong finances and leased rights held in reserve have made this bonus possible.

**Annual Value of
Bonus Entitlement**
\$1,330,000 (2015)
\$1,390,500 (2016)
\$1,543,100 (2017)
\$1,594,600 (2018)
\$1,973,100 (2019)

Cyclic Storage Saves Participating Shareholders Hundreds of Thousands.

Cal Domestic worked with the Cities of La Habra and Brea to take advantage of Watermaster's Cyclic Storage Program, which allows producers such as Cal Domestic to pre-purchase imported water when available and store it for later use at the prevailing rate from the imported water suppliers. Cyclic Storage water access yielded substantial savings for both cities.

Approvals Received for Transfer of Residential Services to the La Habra Utility Authority

After years of work with the City of La Habra and the Local Agency Formation Commissions (LAFCO) in both Los Angeles and Orange Counties, the MOU Addendum for the Orange County LAFCO was adopted. The Company then notified shareholders of the change in ownership and their rights to sell their common stock and become a customer of the La Habra Utility Authority. As of June 30, 2019, 78 of the 295 affected customers have chosen to establish service with the Authority.

Received \$45.8 Million in Reimbursements from BPOU Project

In 2018–19, the Company received about \$1.5 million in expense and capital reimbursements under the terms of the Baldwin Park Operable Unit Agreement, for a total of about \$45.8 million to date.

Strong Sales Numbers Boost Overall Company Financial Health.

Water Sales Form Centerpiece of Financial Highlights. Water sales during 2018–19 totaled 21,758 acre-feet—considerably more than the budgeted 20,080 acre-feet, and slightly less than the prior year's sales of 22,015 acre-feet. The Company continues to be a reliable source of low-cost water for its shareholders.

Water Revenue Up. Water revenue exceeded both the budgeted amount and the prior year's total by approximately \$1,860,300 and \$437,700, respectively. The increase came from annual adjustments to the wholesale and residential water rates and service charges authorized by the Board of Directors in June 2018. Wholesale water quantity rates increased by 3% plus \$35 per acre-foot (for RDA II). Additionally, residential water quantity rates increased by 15%. Lastly, there were incremental adjustments in both wholesale and residential ready-to-serve meter charges.

Operating Expenses Also Rise on Strong Sales. Operating Expenses exceeded budget by approximately \$1,612,900 due to the increase in volume-related expenses:

- Water lease expenses, net of related revenue, increased by approximately \$1,502,600 due to the adoption of a bonus common stock entitlement of 0.30 acre-feet per share.
- Watermaster assessments increased by approximately \$184,200 due to higher water production to meet increased shareholder demands.

Other Financial and Administrative Changes

Rules and Regulations Governing Water Service Updated. On June 7, 2019, following a review and comment period for shareholders, the Board of Directors adopted the Rules and Regulations Governing Water Service, which defines how the Company administers, processes, and provides water service to shareholders in support of its overall mission.

Board of Directors Compensation. Cal Domestic directors receive a stipend of \$200 per meeting for up to seven meetings per month. In addition, Cadway, Inc. provides directors a fixed stipend of \$600 per month. Maximum potential annual earnings are \$24,000 per member.