

BLUE LAKE SPRINGS MUTUAL WATER COMPANY
Minutes of the 8th Interim Meeting
Blue Lake Springs, Arnold, California
Saturday, January 12, 2008, 9:00 AM

- 010** **CALL TO ORDER:** At 9:01 a.m. President Speakman called the meeting to order. Directors present were Maginnis, Multhaup, Owen, Speakman, Watson and Wood. In addition, General Manager Maynard (Mike) Herreid and Recording Secretary Jeri Cline were present. Director Carlsen was absent.
- 020** **AGENDA APPROVAL:** Director Owen moved to approve the agenda; seconded by Director Multhaup, and the vote was unanimous.
- 030** **APPROVAL OF MINUTES:**
- 031 The 7th Interim Meeting Minutes of December 8, 2007: Director Maginnis moved to approve the December Interim Meeting Minutes with changes submitted by Director Wood; seconded by Director Owen, and the vote was unanimous.
- 040** **VISITOR'S RECOGNITION:** The board recognized Jim Roehl of Lot 32 Unit 13, who was there to speak about the rate increase. He did not think the "Dear Shareholder" letter provided a thorough enough explanation and felt there should have been more information provided to shareholders prior to the increase. President Speakman informed him the rates were not determined until November and, with the billings mailed in December, there was a very limited window of opportunity to notify shareholders, prior to receiving their invoices, of the rate increase.

President Speakman: I have been here over 27 years. Before I bought 30 years ago, I knew the infra structure needed to be replaced. The time has come and the cost is going up.

Roehl (32-13): I don't have a problem with that. I understand when last year's water rates went up it was to make infra structure improvements. I support and agree with that, but all of a sudden, wham, another \$100 on top of that; not a lot of education, and not a lot of rational in the letter as to why the rates went up.

Treasurer Wood: I wrote the letter, and I was limited to one page for explaining the rate increase. We always go into a lot more detail at the annual meeting when we have the time, the location, and a lot of shareholders are present. The raise this year was approximately 24%. We found that when we finished the pipe line on Marti/Jerrilyn Drive and the tanks that we had not adequately estimated the cost. Primarily because of the increase in the cost of oil, PVC goes up proportionately, so we were 10% to 14% over budget on those projects. We don't have a debt mechanism available to us at this time so we had to project out the next 5 years of projects and keep a positive cash flow. There was also an increase in repair and replacement projects; we are also still short staffed, and with the projects there was a huge amount of overtime.

Director Owens: The cost of wholesale water purchased from CCWD also went way up and that hit us, too.

Treasurer Wood: The increase in the cost of wholesale water was 82%. In 2007, while the redwood tanks were being replaced, 100% of the subdivision was on CCWD water.

General Manager Herreid: The projects were originally estimated at 2005 dollars. The last project was almost double over budget because of cost increases and we had to make that up.

President Speakman: When we started about 2 ½ years ago, we said we needed to make a long range plan. What is reasonable? We figured 10 years is too much, so let's go 5 to 7, and that is how we came up with a 7 year plan. We have 1 year behind us. We underestimated inflation so we have to acquire more dollars to fund each project. We have also budgeted the hiring of another employee who can transition into the position of General Manager when Mike decides to retire.

Roehl (32-13): How many employees does the water company have right now?

President Speakman: Four. One office, 2 field, and one manager. We run the smallest little work group, and it is totally overlapping. There is no margin for error. The system has to be monitored 24 hours a day.

Roehl (32-13): Looking at the short line budget, the cost per employee seems a little high.

Director Maginnis: We, not too long ago, took a look at the market place to see where we are. For us to capture anyone to work here, or to keep people that are certified to state standards, we have to pay a prevailing wage. We are right in the median. Now to get someone that is also in the median to move, say from Lodi to here, is not occurring. One of the tasks before us today is to engage the services of a part time human relations firm to assist us.

Roehl (32-13): I understand all that, but it is expensive already; water rates have gone up 80% in the last two years. I understand the rationale behind it, but it doesn't seem to make complete sense to hire another person. What about hiring someone part time, and I understand there are a lot of issues with that as well, or hiring Mike after he goes, to come back as a consultant?

President Speakman: We plan on using Mike as a consultant.

Director Maginnis: We have looked at part time; it is a labor pool issue. We have explored all the same issues you mention because we all pay the same bill you do. We would be malfeasant if we didn't. I think you would agree with that. We are not sure what the market will provide to us from the labor pool, because we haven't reached out yet. If we don't get anything at all we are going to have to be a lot more creative. There are not a lot of options. This is not a particular field where people retire from larger companies, go to work for smaller companies, although there is that probability and we are looking at that. We want to get it on our web site. There are people, believe it or not, that do surf these kinds of things. And hopefully, we will catch someone that would like to move up to this part of the country that has the certifications required for the job. Our salary costs have not exceeded 5 to 7% in the last couple of years. They have not. If we don't increase by 7%, then we fall below the median and we take the risk of losing people. When you look at the infra structure of our system, it has to be replaced eventually. We are 1/7th of the way into it, based on 2005 dollars. You can build into your projections a certain percentage, as you know, and adjustments for construction costs, but the whole issue surrounding the cost of oil and petroleum hammered us.

General Manager Herreid: The tanks were originally designed it to fit on the existing foundation, but seismic requirements prevented that.

Treasurer Wood: We have a very unique situation in that Mike has 37 years experience. What we are hoping to do is to strengthen our force, and allow him to focus on these special projects for the next 4 to 5 years. He has worked with these contractors for years and, up until this project, which was a materials cost issue, we have had great luck with the projects being on budget. We have not had the sort of savings and reserves we should have and we have elected to pay as we go, to fund the projects, and have a reasonable replacement plan, because some of these system areas are pushing 40 years old. Water has been cheap too long. We are not replacing the oldest areas first; we can't because of pressure and volume issues. Right now we have Mike who has all the

knowledge, we have Dave Hicks, our field man of 20 years who is very knowledgeable, and then we have a brand new employee, Tom Milligan. There is so much to learn, starting in the streets, hydrants, the treatment plant, the big issue is supply. Some 15 years ago we went in with CCWD on a joint project for wells at White Pines Lake, and to expand the treatment plant. We had the power to pump water over from the wells, got a very good rate from PG&E under their umbrella. That was all great. Now the wells, slowly but surely, aren't producing as well; more homes have been built, demand is up, supply is down. That is why every year we rely on CCWD for some of our water supply. It is all like a perfect storm from multiple directions. We had to face up and make the hard decision; we need to move forward and replace the infra structure.

Roehl (32-13): Like I said before that is great. I support that. It is just surprising to me not to hear about it until I got my bill. I was not involved in your discussions every month. It would be good to get more information out there, more talk, other than not hear about it until the bill comes out.

President Speakman: We just got a web site up thanks to Director Maginnis volunteering his time.

Roehl (32-13): I looked for information there but didn't find any.

Director Maginnis: We have to do a better job and we talked about this. We can set ourselves up very quickly for failure by trying to predict rates ahead of time. If we don't predict correctly then we'd be in trouble.

Roehl (32-13): It seems that last year there was a fair amount of talk leading up to the water rate increase, and this year all of a sudden it was wham, here you go

Director Maginnis: We have to do a better job of getting the word out.

Roehl (32-13): Thank you, I appreciate that.

President Speakman: In the bay area when there is any meeting - commission, council meeting, water company, there are reporters there, television cameras; you can watch it at five, six and 11; read it the next morning in the newspaper; there's information online. Here there are 7 volunteers on the board, and 4 employees; one volunteer made a web site.

Roehl (32-13): You do have options; you can send out mailings, you can document it, put it in an earlier lodge log, that kind of stuff. That is what I am saying. Get it out there more.

Director Maginnis: Good point. In fact we talked about doing that, but we held back too long because CCWD hadn't settled their bill to us, and we didn't want to set the rate, then get this monstrosity bill and have to readjust again.

President Speakman: We are still working with them. We have set up quarterly meetings with CCWD and we are trying to continue to work on that rate.

Treasurer Wood: Last year, when we did the rate increase we did not anticipate another significant increase this year, but I don't think anybody anticipated the increase cost of materials for construction. And again, those projections used 2005 dollars, without an inflation adjuster. What we are seeing is that certain material inflation costs are much higher than the cost of living.

Director Maginnis: I think what we are hearing is that people understand and they may not like it, but they understand. They just want to know about it ahead of time. We have to do a better job of telling people what is, or is not going on at the moment. We don't have a lot of venue to do that. That was your point.

Roehl (32-13): I agree with that.

Director Maginnis: Maybe we can get more space in the Lodge Log.

Treasurer Wood: A lot of the bills for the project came in between October and November. We needed those residual bills to know we were over budget. It was late in the year; we had to set rates in November and send out the invoices in December.

Director Maginnis: Maybe we have to explore a special mailing when we are anticipating a sizable increase, whatever we agree is sizeable. It is a little more palatable, even though you don't like it, if there is an explanation available.

President Speakman: There are a couple of communities nearby here that let their water infrastructure fail and they are paying tens of thousands of dollars per household to have water, basic water. You don't have water you can't live in your house. That is why we bit the bullet. It is value added to the asset. That is why we decided we have to fix this water company, and we are doing it.

Roehl (32-13): What is the future outlook for 2008, 2009, and 2010? Are water rates going to continue to go up, or are they going to stay where they are at? I know they stayed where they were for a long time. Are we going to get back to an even place, are we going to plateau again, or do I have to expect another letter next year to say they have gone up another \$50?

General Manager Herreid: We are expecting to hold the line for at least 5 years, and then we will have another 5 year plan to get all the mains into the streets.

Director Owen: Another thing too, because we are short staffed, when our people have vacations, sick leave, etc., overtime costs go way up because someone has to be on call for the water system 24 hours a day.

Treasurer Wood: We are a Mutual Water Company and, under our by-laws, the directors set the rates. Other water companies who need to raise their rates can't get the increase passed; they have no budgets to do a lot of reserve replacement, and they really are breaking apart. They have gone out 2 and 3 times for rate increases and each time it's voted down. I think that part of what most people who complain about the rates don't realize is that, in essence, you own a share of the water company associated with your lot, and the better we keep this system and improve it, the more the future property values will be maintained. Many others only fund maybe 10% of the rate of the replacement cost than they should. I would really like Mike to focus on these special projects and insure our investment in a 40 year future. We need to hire another person so we have got a transitional period in the next couple of years.

General Manager Herreid: The surveillance of the system right now needs two people. I don't like to send one guy out alone at night, in back lot lines and down in canyons. If he falls over a tree, busts a leg, he is there and nobody knows where he is.

Treasurer Wood: We are ahead of the game in terms of studying and actually dealing with the problems. I am not sure we are ahead of the game in terms of our 40 year life expectancy. We have to improve our system in a certain way, but some of our oldest systems are not being upgraded in the next 5 years; we are just hoping that they will hold until we can get these improvements made and can get around to them.

President Speakman: So essentially you have got two issues, high pressure and low pressure; the high pressure you have to regulate, the low pressure you have to pump. The looping of the system is a delicate dance.

050 FINANCIAL REPORTS:

- 051 December 2007 Balance Sheet & Income Statement: Not available pending completion of the audit.
- 052 Bills for December 2007: The bills of note for December include \$1,527.60 charged on the BofA Visa card for prepaid window envelopes to be used for 2008 Invoices; \$1,953.45 paid to CCWD for CPPA power, 10/6-11/5/07; \$4,954.30 to HDR Engineering for Initial Distribution System Evaluation, and \$1,468.49 payable to CCWD for water purchased 12/1-12/31/07. HDR Engineering was paid \$1,671.71 for As-Built Drawings out of the Expansion and Improvement Fund. Director Wood moved to approve December bills in the amount of \$25,111.03; seconded by Director Owen and the vote was unanimous.

060 MANAGER'S REPORT:

- 061 Water Consumption/Losses/New Connections/White Pines Wells Production: In December, General Manager Herreid reported 3,476,000 gallons of water produced and 4,470,000 gallons purchased from CCWD. Daily Average Produced in December was 112,000 gallons. Wells Draw Down average was 98 feet of water above the pump in December. The last page compares the last twelve years by month for Total Usage, which was 4,168,000 gallons in December. We had no new connections in December, for a total of 3 connections year to date. There are now 1,694 homes. Average usage per home in December was 2,453 gallons with 12,000 estimated gallons lost.

070 OPERATIONS/LONG RANGE PLANNING:

- 071 Systematic Replacement and/or Improvements:
A. *Stephanie Drive/Patricia Lane Project:* Nothing to report.
- 072 Long Range Planning:
A. *CCWD Amendment to Agreement of September 10, 1992:* President Speakman reported he had written a letter to Dave Anders of CCWD thanking him for the meeting. In the letter he also mentioned the Mill Pond gates and again invited CCWD to tour our facilities

080 COMMITTEES:

- 081 Budget & Rates Committee: Nothing to report.
- 082 Salary & Benefits Committee: Nothing to report.
- 083 Personnel Policy Committee: Director Wood reviewed the job descriptions prepared by Lori Kalika, HR Consultant, as well as her credentials and proposal. Regarding the job descriptions, discussion followed pertaining to the physical requirements, and how to go about testing for the physical qualification. Director Wood moved that the board accept an agreement with Lori Kalika for one year, and a retainer of \$200 per month; seconded by Director Maginnis, and the vote was unanimous. Director Wood will be the liaison for the water company.
- 084 Projects Committee: Nothing to report.

090 PUBLIC RELATIONS:

- 091 Lodge Log Article: President Speakman will discuss the rate increase in the article due Feb 1.

110 UNFINISHED BUSINESS:

111 Quarterly Meetings with CCWD: In his letter to Dave Anders of CCWD, as discussed above, President Speakman said that he also asked for a date to meet again.

112 Black Mountain Software: Beginning balances have been entered into the new software program; the next step will be a dummy billing for comparison with DBASE totals.

113 New Hire: Discussed above.

120 NEW BUSINESS:

121 Correspondence:

A. Blue Lake Springs Mutual Water Company and Blue Lake Springs Homeowners' Association have signed a 3 year rental agreement extension.

B. Prior to the meeting, copies of written complaints from shareholders pertaining to the rate increases were distributed to the board. There was discussion of remedies for non-payment. Director Wood asked that the issue be tabled until fall, after the new hire and completion of the next project, at which time issues associated with the BLSMWC by-laws can be reviewed. General Manager Herreid presented a request from the Water Education Foundation for a contribution of \$132. He was advised to use his discretion.

122 Other: None

130 ADJOURNMENT: The meeting was adjourned to closed session at 10:29 a.m.

Respectfully submitted, Jeri Cline, Recording Secretary
Transcribed from tapes of the meeting

APPROVED: