

BLUE LAKE SPRINGS MUTUAL WATER COMPANY
Minutes of the Annual Shareholders Meeting
Blue Lake Springs, Arnold, CA
Saturday, June 7, 2008

010 CALL TO ORDER: The meeting was called to order at 10:03 a.m. by President John Speakman. President Speakman welcomed the shareholders and thanked them for attending. The board members present were introduced: Ehrling Carlson, Bob Maginnis, Ernie Multhaup, Dave Owen, and David Wood. President Speakman read a letter to the Shareholders from Director Watson who was absent for a family graduation. The employees present were introduced: Maynard (Mike) Herreid, General Manager and Jeri Cline, Office Manager/ Recording Secretary. Water Master David Hicks and Assistant Water Master Tom Milligan were not present. Former Board member Don McPherson (92-1) served as Inspector of Elections. There was no Parliamentarian.

020 QUORUM PRESENT AND/OR BY PROXY TO CONDUCT BUSINESS: Don McPherson, Inspector of Elections, reported that the bylaws of the water company require the presence in person or by proxy of 25% of all shareholders in good standing to constitute a quorum for the transaction of business at its annual shareholders' meeting. He reported there are 2024 shareholders, with 18 of those delinquent, leaving 2006 eligible votes and 25% of that number needed for a quorum, or 501 votes. Eight hundred seventy-three eligible proxies were received, not including those voters who were present. Therefore, business could be legally conducted.

030 MINUTES OF JUNE 2, 2007, ANNUAL SHAREHOLDER MEETING: President Speakman asked for corrections or additions to the minutes mailed to all shareholders shortly after last year's annual meeting. There were no corrections or additions. Jeanne Multhaup (532-5) moved to approve the minutes; seconded by Bill Tonge (730-5), and the motion carried unanimously.

040 PRESIDENTS REPORT: President Speakman paraphrased a letter received from shareholder Steven Epp who was unable to attend, but wanted his concerns addressed at the annual meeting. Mr. Epp complained about the rising cost of water and felt that fulltime residents, such as the board members, were putting the cost of water on the backs of the part-timers. He asked why rates had doubled in 4 years. President Speakman explained that he is a part time resident and has been for 28 years; also are half of the board. No one is happy about the cost of water, including the board and wives of the board, who have asked what is going on, why have the water rates been going up? The answer is the system had old pipeline in the back lots which needed to be brought into the street; there were no hydrants and hydrants are being added, while the costs for improvements are escalating. If improvements to our system are not continued, the subdivision could end up akin to some of the surrounding communities that have had to pay tens of thousands of dollars per parcel to keep their water system going. He passed the microphone to Treasurer Wood for a financial explanation.

050 TREASURER'S REPORT: Treasurer Wood began by reading a quote from the article **A Crack in the Dam** by Stephen E. Flynn, an infra structure expert: *"Only the oldest Americans can recall an era when completion of great public works from the Golden Gate Bridge to the Holland Tunnel was a source of national pride. Our new face to the world is increasingly one of the super power that is robbing from within. We are the wealthiest country on the globe, with a gross domestic product of more than 13 trillion per year, yet we have been squandering the infrastructure bequeathed us by an earlier generation. Like the spoiled offspring of affluent parents we behave as though we have no idea what is required to sustain our quality of daily lives."* Across the United States, whether roads, sewer, water, dams, you are hearing a huge amount about infrastructure; and reserves have not been set aside to replace the aging infrastructure. There was tremendous growth post WW II in infrastructure, reaching a peak in the 60's and 70's; BLS subdivision happened in 68-69. These assets have a finite life. Much of the piping in our system has a much longer life than all of the associated ancillary equipment: valves may have a 25 year life expectancy, while the pipe may have a 40, 50, or 60 year life expectancy. The mains installed in BLS were 1 ½ inch or 2 inch, and included no fire hydrants. Standards today are minimum 6 inch main and there is a huge back log of infrastructure not yet replaced. To illustrate that other water districts are having the same issues, he reported that Angels Camp shut down water to the city of Angels Camp for about 2 ½ days because of fear of a failure in their main transmission line. (An Angels Camp council member characterized replacement of that line as an investment.) At the end of the planned period of improvements to the BLS system during the next 4 to 5 years, approximately 66% of the BLS infrastructure will have been replaced. Treasure Wood read from Note G of the 2007 Financial Review prepared by Sandra Vaughn of Ebbetts Pass Accounting: *The Company engaged HDR Engineering in March of 2006, to evaluate repair and replacement costs of assets. The board approved a 7 year plan and voted to raise water rates and not assess a one time fee to help make up the deficit. The 2007 budget amounts for repair and replacement were a total of \$538,911, actual replacement costs were \$629,561.* This was read to clearly show that the board visited and rejected a Special Assessment. Treasurer Wood reported receiving many phone calls from realtors in town who continue to hear that a Special Assessment is around the corner and he wanted to dispel the rumor. People have been saying that the water rate in BLS is almost as high as in the San Francisco Bay Area; BLS must comply with the same state and federal guidelines for drinking water quality as the larger systems do, but have a much smaller pool of people to spread the costs among. While we have some challenges we are very lucky that we have 2025 shareholders; what is hurting some of the local small water systems that have 100 or 200 people is they just don't have the economies of scale. There is some financial assistance in the form of low interest loans based on financial need, however only the poorest areas qualify. Barry Ward Realty had provided

Treasurer Wood with statistics of sales in BLS during the last 6 months. There were 14 homes sold, with an average selling price of \$451,000, in early 2008 and late 2007. The lowest priced home was \$269,000 and the most expensive was \$818,000. 1703 connections to homes in the sub division valued at \$451,000 a piece is \$768,053,000, leaving approximately 322 unimproved lots with an average selling price of \$145,000 per bare lot for a total value of \$46,000,000 of value in unimproved lots. The grand total of both improved and unimproved lots is \$814,000,000, or 8/10 of a billion dollars. If the water system were to be replaced today, you would replace it at approximately \$27,000,000, based on the 2006 Reserve Study. That is a ratio of the value of our assets to the cost of the infrastructure that maintains it of about 3.3. In order to meter the whole system now would probably add somewhere on the order of 1/2 to 3/4 of a million dollars, plus a lot of operational costs, and is not cost effective at this time. The 2008 rate increase was approximately 24% and was arrived at by considering the increase in construction costs, the 80% rate increase for wholesale water charged BLS by CCWD, and allowance for additional personnel to handle a predictable transition in the future. (BLSMWC is very short staffed for a system this size.) Treasurer Wood invited shareholders to attend monthly board meetings and closed by asking for questions from the floor.

QUESTION: Earl Patterson (51-10) Could you repeat the number of unimproved lots you said we have here?

ANSWER: Treasurer Wood I believe it is 322. There are 2024 shareholders, or lots, in the whole subdivision between Units 1 and 13, 1703 approximate connections, leaving about 322 unimproved lots; some off those are probably unbuildable, but they are all shareholders.

QUESTION: Dan Wendin (400-3) Do you know the split of unimproved lots between those that are single lots and those that are owned by somebody as a double lot?

ANSWER: Treasurer Wood I do not. Mike thinks maybe 100. I will tell you that I am one of the unimproved lot owners, so I never even use any water, and my wife does complain about the water bill.

QUESTION: Don Stebbins (571-5) Since we are not going to have a single assessment for the construction costs, when you publish the budget each year could the costs be separated to identify what is going towards the infrastructure?

ANSWER: Treasurer Wood I think we could report what we call operating costs versus non-operating or replacement costs.

COMMENT: Don Stebbins (571-5) Rate increases tend to never go away; special assessments have that in their favor.

ANSWER: Treasurer Wood Yes, I agree. But special assessments can also find you bloody and bruised on the side of the road. We looked at all those options

COMMENT: Don Stebbins (571-5) They can be spread out over several years.

ANSWER: Treasurer Wood We looked at all those options.

COMMENT: Don Stebbins (571-5) Which is effectively what your are doing.

ANSWER: Treasurer Wood I agree, and I will say that for the foreseeable future, (and that would be in the 10 to 15 year plan)

we will be doing replacement constantly. One of the advantages to these projects is the addition of hydrants; this year we are going to add 17 new fire hydrants. That helps homeowners' insurance rates; it helps the Ebbetts Pass Fire District with their ISO rating. It just makes it safer and we have better flows, volume, and hopefully quality, too.

QUESTION: Donna Dernier (73-10) The increased amount that we paid this year, you anticipate approximately that much ongoing?

ANSWER: Treasurer Wood No. I say again, the 24% increase this year came about in part from an 80% increase in our wholesale water rates from CCWD. I believe they will not raise that rate for the next 5 years. One of the differences between a public water utility and BLSMWC is that they have to have everybody vote on their rate increases. It is called Prop 218. And what is actually hamstringing many water systems around California is that their shareholders are turning down rate increases; they can't do the replacement, and they are literally failing because they don't have the financial resources to fix them. Again, I want to emphasize, at \$800,000,000 of property value, that we are actively campaigning to let people know we are maintaining property values, because this infrastructure is strong. And I would say as a consultant that works in the water industry, and looking at the rest of Calaveras County in particular, that we are on the leading edge. Any other questions? I thank you for your time.

PRESIDENT SPEAKMAN: Thank you very much, David. I live in Unit 13. We have 6 inch mains in the street and a fire hydrant at the corner. I don't need a new water main; I don't need a new fire hydrant, but we are paying for the rest of the community and that is just the way it works. I love this community; that is why I fill up with gas and come up here once a month. I think it is worth it and I think it gets a little bit more special every year. David Wood has been phenomenal for us by doing these financials, and he just owns a bare lot that he hopes to build on. He has done a fabulous job; everyone does who volunteers on this board, but he has really been outstanding. Again, it's about our value, your property value, the community here. That is why we are doing it. I don't like the way rates are going up, I don't like paying more money, but I think we are really obligated to do this to maintain the value; otherwise it will just literally crumble. Thank you. Next, is Mike Herreid, our Water Manager, to give the Water Manager's report.

QUESTION: Don Stebbins (571-5) When you are talking about fairness and the rates, you are talking about two different kinds of rates. When you are doing the infrastructure improvements those are normally paid for by connection; when you are talking about rates for consumption those are normally billed by usage, and we have been charging part-timers the same effectively as full timers. That is not charging for usage, or are you trying to minimize usage? You understand what I am saying? What I mean is, when we are paying for the infrastructure improvements, they should be based on so much per connection, regardless of whether you are part time or full time. Water consumption is another part of our rate. We have mixed the two now by not having a Special Assessment. When you are just talking about water consumption, the rate structure we have for that is grossly unfair.

ANSWER: President Speakman I concur.

060 MANAGER'S REPORT: General Manager Herreid Our source water comes from two wells located at White Pines. There are actually three wells, but only two of them are active. Currently they are running at about half speed, because the wells are not recovering. Primary sampling of the wells shows no detection of contaminants above the MCLs set by the State and Federal Drinking Water Act. The recovery rate is still less than prior years. We are working with CCWD to try to remedy this. We are in a joint venture with CCWD; they own half the wells, half the treatment; BLSMWC is paying for all the maintenance. We have two connections to CCWD, so even if the wells are completely down we still have the CCWD water to back us up. About half of the system (Unit 8) is on CCWD at this time, and will probably remain so all summer. We are working with CCWD on the Mill Pond, which is a recharge area for our wells. At the treatment plant, we are adding Potassium Permanganate as a pretreatment oxidizer, oxidizing the Hydrogen Sulfide, Iron, and Manganese, and we do add Chlorine to handle anything that isn't oxidized by the Permanganate and Potassium Permanganate. Anything that the Potassium Permanganate doesn't remove, the Chlorine will, along with keeping a residual in the distribution system. We try to keep the Chlorine residual above normal, normal being about .5 parts per million in residual. We try to keep at least 2 parts per million in residual because we have uncertain usage: heavier usage on weekends; differing usage seasonally. Some people can be sensitive to Chlorine, but if you have Chlorine residual you can guarantee 100% kill of any bacteria. We use caustic soda as a Ph adjuster. Our water quality after treatment meets or exceeds all the current standards set by the U. S. EPA and the State of California Department of Health Services, with no violations. The redwood tank replacement project was completed at a higher cost than projected because of the necessity of a new foundation, which was not foreseen. General Manager Herreid reviewed the map on display showing 5 years of additions identified by color. He reiterated the plan to do one project per year as the reason behind rate increases. Samples of pipes were on display for shareholder inspection: a piece of existing pipe with a diameter of 1 ½ inches, inside a portion of replacement pipe. There are some 2, 3, and 4 inch pipes in the system, but more of the 1 ½ inch. He assured everyone the current system is a good one and meets all standards, except in regards to size and the current number of hydrants. Handouts were available for the taking providing information on dry barrel fire hydrants. We now have 112 hydrants throughout our service area; our service area is 1 through 13. General Manager Herreid spoke of the diverse talent represented by the members of the board, saying he had been with BLS for 40 years, starting with the developer, and had seen a lot of good people on the board; these members were some of the best. Long range planning will continue, not only for the existing system, but for the future needs of BLSMWC. Regarding water conservation, General Manager Herreid told the story of a man he had talked to who collects, in one gallon containers, all the water that runs while he is waiting for the water to get hot for his showers, then pours all of that water into the tank of his toilet for flushing. He has been doing this for 14 years. General Manager Herreid admitted this was extreme, but reminded everyone that we do want to conserve water. He asked for questions from the shareholders.

QUESTION: Sammy Ibrahim (143-13) Please explain to me, how do you remove Manganese by adding Permanganate?

ANSWER: General Manager Herreid That is where the chlorine comes in. Anything left over, if there is a demand for any type of

chlorine, the amount of chlorine is automatically increased, so we are 2 parts per million when we go out. The Potassium Permanganate is more for taste and odor than it is for the oxidation. The plant was designed not to use Potassium Permanganate, but we found that out when we were dechlorinating and rechlorinating again. It was removing some of the taste and odor problems, but we found out by adding the Potassium Permanganate that it helped the taste and odor problem.

QUESTION: Mike Oliveira (811-7) A question on the hookups to the new mains.: is there any code requirement for completing that hookup to our private residences, and if so, are there any inspections required or any permits?

ANSWER: General Manager Herreid We are going to be putting in two service boxes. The second box will belong to the homeowner and include a pressure regulator and shut off valve. The homeowner is responsible for any high or low pressure and it is the homeowner's responsibility to replace the regulator when needed. We recommend that you keep another one at the house for double protection. The county inspects only 2 feet out from the foundation, and that has to be copper. We can go no further than our service box, so there is a grey area between there and the house. We recommend that people use 1 inch pvc. Does that answer your question?

QUESTIONER: Mike Oliveira (811-7) No.

QUESTION: Charles Ruth (8-11) Will the board put out a recommended procedure, what we need to do to hook those particular lines up? Will they suggest that in a document we can take to a contractor, or if we are going to do it ourselves, so we can make sure that we are in code compliance, do some research on that; also a list of materials and possibly a plan to hookup? I think we all need that. If we are going to have contractors do the work, we want to make sure the work is being done right.

ANSWER: General Manager Herreid Yes. You will receive another letter stating just what you are asking, that shows what to put in, what to watch out for, if you want to do it yourself. We do not recommend any plumbers; we do have a list of plumbers that we have taken from the phone book. You can either do it yourself or hire it out, but we stay away from recommendations because of the liability.

QUESTION: Charles Ruth (8-11) The 2nd part of my question. I am a quasi resident/part-timer here. I purchased my home about 6 years ago. It has an existing meter on it and my usage doesn't qualify for the actual application of a meter. Will that meter be replaced, or do I have to replace that meter after this new system installation?

ANSWER: General Manager Herreid Are you being billed off that meter now?

QUESTIONER: Charles Ruth (8-11) Yeah. My usage doesn't qualify for meter reading because I am a part-timer, but the meter was installed by the previous owner. I have no outside watering at all.

ANSWER: General Manager Herreid You have a newer one then. We will replace that at the proper time. If you have no outside watering at all, just call the office and we'll take it off of there.

COMMENT: Earl Patterson (51-10) Some of the questions and complaints have been about part-timers. Many of them rent to people who couldn't care less about the usage of water. I think the part-timers that are here might have a complaint, but those that rent don't.

ANSWER: General Manager Herreid Those that rent their

properties are charged a higher rate. They are charged as much as a full-timer. Full-timers are paying more than the part-timer, if they tell us.

COMMENT: Marilyn Larson (119-13) I just want to make a statement. Every place has a base rate. If you don't use water in the bay area for 2 months, you are still going to get a bill for the base rate. I checked when I was doing books for a homeowners' association, and the base rate for CCWD, whether you use water or not, equals what our billings are here. So it is just a fact we forget. We think because we are up here in the mountains we don't have to have a base rate, but you need it for your system whether you are using water or not. My granddaughter was in an apartment 3 days a week while going to college. They took everybody in the apartment, added them up and divided the water bill amongst them all, whether they were there or not. So it is typical. You have to have it for your system.

COMMENT: ????? It doesn't have to be what it is. It is not equitable. In the Bay Area I use more than twice the water I use here and I pay less. And in the Bay Area I have landscaping, which is 50% of my usage.

ANSWER: General Manager Herreid Of course they have a lot more people to spread the cost amongst, where up here we don't. Actually the water itself is figured out by actual usage of the water and spread amongst the cabins. Bare lots don't pay it. The bare lots are paying for the base rate. I know there is a discrepancy between the part-timers and full-timers, but there are part-timers up here that use more than the full-timers do. We had about 100 meters out on 6 different types of occupancies and that is why. You'll see 8 or 10 cars out in front of a property that should only house about 8 people max. With 2 people per car that is a lot of usage. Most of the full-timers are retired people, only 2 to a home, and they conserve water. We know it is not fair. But there is no way we can really change it unless we go to meters on everybody.

COMMENT: ????? Sure you could. You could estimate part-time versus full-time, and charge on that basis. You have got meters right now on all of those types, so you can tell.

ANSWER: General Manager Herreid No, we just have meters on the people that have additional watering.

COMMENT: ????? You said you had them on all types.

ANSWER: General Manager Herreid No. That was about 20 years ago. Those meters are gone. A meter only lasts about 10 years and then it starts reading low, and that is the first thing that happens to a meter, unless you have a meter replacement program. That is why we are not installing new meters with the new connections; because by the time we go to use them they will be obsolete. Any more questions?

QUESTION: Tim Thompson (75-1) How do you say the meter only lasts 10 years? I have a meter on my house in Santa Clara and they don't come out every 10 years and replace the meter.

ANSWER: General Manager Herreid They should.

QUESTIONER: Tim Thompson (75-1) That's not true. And did you say that renters get charged more?

ANSWER: General Manager Herreid Yes, they do; \$30 more a year. They are paying the same as a full-timer.

QUESTIONER: Sammy Ibrahim (143-13) How does the meter fail? I don't understand.

ANSWER: General Manager Herreid They read low. After 10 or 11 years they read low. Maybe after 10 - 12 years they start reading low so you are losing revenue.

QUESTION: Pat Tonge (730-5) Mr. Wood talked about the pipe lasting 50 years, but the valves or regulators only last maybe 25; are these going to be more equal now? Are the valves worse,

better, or what?

ANSWER: General Manager Herreid No, the valves will be better.

QUESTION: Tim Thompson (75-1) Do we have the option to pay for a meter, put it in ourselves?

ANSWER: General Manager Herreid We'll put it in at a cost of \$115.

QUESTION: Tim Thompson (75-1) So, if I have a meter on my property here, does that mean you guys read it or I read it?

ANSWER: General Manager Herreid We read them every 2 months, and it will be for additional watering only; either an automatic system of some kind, or extra usage beyond the \$30.

QUESTION: Tim Thompson (75-1) If I don't use extra water for landscaping I can't have a meter?

ANSWER: General Manager Herreid No, not yet. Not until we can meter everybody.

ANSWER: President Speakman Ultimately, when we get all the mains in the street, as we put in the main, you reconnect; we put in a double box, with an idler. When we get all the mains in the street, the idler can come out, and we drop the meters in. I think the technology is there now to drive by and read them. So then the people that are using a lot of water are going to pay more.

070 NOMINATIONS: Two candidate's names were submitted to Nominations Chairman Dave Owens for the two open positions. The names were the same as the two names printed on the ballots mailed to all eligible homeowners. They were incumbents Ernie Multhaup and Dick Watson. President Speakman asked for nominations from the floor. There were none. Jeanne Multhaup (732-5) moved to close the nominations seconded by Don Jacobberger (6-12) and the vote was unanimous.

080 DIRECTOR'S RECOGNITION: President Speakman presented an award of recognition to Ernie Multhaup in appreciation for his service to the water board, and thanked both Ernie and Dick Watson, who was not present to accept his award, for their contributions during the three years of their terms; he congratulated them on being reelected to another term.

090 OTHER BUSINESS: President Speakman asked if there was any other business to bring before the board. As a matter of procedure, Don Jacobberger (6-12) asked President Speakman to declare the incumbents reelected, saying he had only closed the nominations. President Speakman declared the incumbents reelected to another 3 year term.

100 ADJOURNMENT: With no further business to come before the meeting, the meeting was adjourned at 10:58.

