

DRAFT
DIAMOND A MUTUAL WATER COMPANY
BOARD MEETING NOTES

Date and Location: The meeting started at 7:00pm, December 6, 2016, at the Diamond A Recreation Center Building, 18843 Spring Drive, Sonoma County, California

Presiding: Richard Bryan, President

ATTENDEES:

Board Members:

Richard Bryan
Joe Lieber
Dave Martinelli,
Ron Matteson
Celia Schake
Peter Hohorst
Patrick Treacy

Staff:

Dee Young- Administration and Finance Manager
Bill Angeloni-Operations Manager

Shareholder Guests: Roland Gangloff

Meeting opened with quorum.

MEETING NOTES:

The Board approved the meeting notes from the Quarterly Board Meeting held October 13, 2016.

COMMITTEE REPORTS AND DISCUSSION:

1) Operations

a) Operations and Administration

i) Water system update

(1) System status

(a) Maintenance activity: Two defective water meters were replaced.

(b) Well monitoring: Water level readings were within the normal operating range.

(c) Water production: The system is forecast to produce approximately 31.7 million gallons of water in 2016, about 4% lower than in 2015.

(d) Zone 3S Tank status: A leak was observed at the base of the tank. Divers have been scheduled to plug the leak from the inside of the tank. At the same time the divers will clean the bottom of the tank.

(2) Zone 2 Tank replacement

(a) Preliminary Engineering: Preliminary Engineering is expected to be complete by the end of December. The Final Engineering process will start shortly thereafter.

(b) Schedule: After the final engineering is completed, permits will be obtained, a steel tank will be purchased, the site will be graded for the new tank and the tank erected. The tank is scheduled to be in operation by early 2018.

(3) SCADA

(a) The Board discussed and approved further research into improving control and monitoring of the water system. For example, after reviewing recent PG&E bills, it was clear that there could be a savings if pumping activity is limited to off peak hours by installing mostly off-the-shelf technology to control the pump run periods and electronically monitor the water level in the tanks. Wells 1 and 2 (the two Diamond A Rec Center sites), which supply the new Zone 1 tank on White Oak Court, were identified as good candidates for a trial. The Operations Committee will work with our water service professionals to explore cost-effective options for the design and installation of the control system.

b) 2016 Financial Update

- i) Usage during the July/Aug/Sep period (October billings) was much higher than expected at the October meeting. Total Water Sales Revenue will end the year \$4k below budget, but still much better than the \$20k shortfall predicted back in October.
- ii) Expenses are generally near the budgeted levels, with the exception of Repair and Maintenance costs. Based on current trends, these costs are projected to be approximately \$5k below budget.
- iii) Capital expenditures have also been well under budget YTD, and are expected to end up \$15-\$25k below budget.
- iv) The lower Water Sales Revenue should be offset by reduced R&M costs and reduced Cap Ex. Consequently, ending cash for 2016 should be near budgeted levels.

c) 2017 Budget – Board Approval

- i) Summary of key data:
 - 1. 2016 Budget: \$145k Cash Flow from Operations, less \$108k in debt reduction and Cap Ex
 - 2. 2016 Forecast Actual: \$144k Cash Flow from Operations, less \$91k in debt reduction and Cap Ex
- ii) The 2017 Budget was developed based on the 2017 Reforecast plus an across the board 3% bump in costs due to inflation unless otherwise noted:
 - 1. Water Sales were held constant with 2016
 - 2. Interest expense was increased to reflect a second tank loan
 - 3. Repair and Maintenance costs were increased slightly to \$35k total
 - 4. Same methodology was used in prior years

d) Cap Ex:

- i) \$5k for Chlorine System Upgrade
- ii) \$40k for Capital Reserve Account
- iii) \$336k for Zone 2 new tank, less \$200k in financing
 - 1. Financing Amount and loan term (4 yrs) is the same as the previously approved Westamerica Bank loan
 - 2. At such time as the loan financing is actually negotiated in 2017, the Board may want to consider larger loan (e.g. \$250k) with a longer term (e.g. 5 yrs) in order to preserve the company's liquidity.

(ii) The Board unanimously approved the replacement of the Zone 2 Tank.

- e) **2017 Budget.** The Finance Committee recommended approval of a Budget showing \$135k in Cash Flow from Operations, less \$254K debt reduction and net Cap Ex

- i) This recommendation includes construction the Zone 2 tank in 2017
- ii) Ending Cash in Dec 2017 is projected to be \$60k

iii) The Board unanimously approved the 2016 Budget as presented.

2) Insurance Update

- a) The current broker does not provide Earthquake insurance, so Martinelli has contacted a different broker to get a Quake quote. This will give us the opportunity to evaluate other broker options at the same time.
- b) If this broker should prove to be unsatisfactory, Dee forwarded the name of an alternate broker.

3) Rate structure

- a) A report was provided to the Board with a comparison on water rates. Diamond A is somewhere in the middle of other Valley providers. Our fixed M&I charges are on the high side, but at least one other provider (Mission Highlands) is higher. Our

water usage rates in the middle with several other water companies both higher and lower.

- b) We expect to be in tank replacement mode for at least the next 4 years, in terms of paying off the debt associated with the tanks. It would be prudent to maintain our M&I charges at their current level during this period of time. The M&I income is not dependent on usage and the certainty of the fixed income stream is an important factor given our fixed debt service requirements.
- c) At such time as the tank debt is fully repaid, then the Board should re-visit this topic to:
 - i) Review the rate tiers to see if additional tiers are appropriate
 - ii) Set the break points between the tiers in a more logical progression
 - iii) Increase the overall water usage rates
 - iv) Decrease the fixed M&I charges
- d) It is highly likely that by the time the debt is paid off, several other local water companies will have adjusted their rates upward, particularly Sobre Vista and Mission Highlands.

4) **Governance**

- i) **The Board unanimously approved the Nomination Committee recommendations** for the board vacancies created by three board members with expiring terms. The incumbents:
 - Cecilia Schake
 - Peter Hohorst
 - Joe Lieberwere nominated for the vacancies.
- ii) 2017 Meetings
 1. The Annual Meeting will be held on March 26, 2017 at 4:00pm at the Diamond A Recreation Center Building.
 2. The first Board Quarterly Meeting will follow immediately after the Annual Meeting on March 26.
 3. Three additional quarterly board meetings will be held throughout the year.

5) **Conservation and Communications**

- a) Conservation and Communication
 - i) Self Assessment – Risk assessment and emergency response plan will be developed by the Board, led by Joe Lieber, in 2017.
 - ii) A company News Letter edition is being developed and will be issued early in 2017.
 - iii) The answering service contact list has been updated

6) **Comments from shareholders (no comments)**

Open meeting is adjourned and executive session opened.

7) Executive Session

- a) Delinquent accounts were discussed. The Board decided to start the lien process outlined in the company bylaws when accounts are 6 months past due or over \$1,000 in arrears.
- b) Further action on a damage claim was discussed and the Board President was tasked to take the action.

Executive session was adjourned and the Board returned to open meeting.

Meeting adjourned at 8:55pm