

DIAMOND A MUTUAL WATER COMPANY BOARD MEETING NOTES

Date and Location: December 9, 2014, 7:00 p.m., Diamond A Recreation Center Building, 18843 Spring Drive, Sonoma County, California

Presiding: Richard Bryan, President

ATTENDEES: Board Members: Richard Bryan, Peter Hohorst, Dave Martinelli, Celia Schake, Joe Lieber, Patrick Treacy and Mike Buckley. Staff: Bill Angeloni, Dee Young and Shirley Angeloni. Shareholder Guest: Sheryl Glon

MEETING NOTES:

The board approved meeting notes from the Quarterly Board Meeting on September 26, 2014.

COMMITTEE REPORTS AND DISCUSSION:

FINANCIAL –Dave Martinelli

1. Year End Financial Update

A reforecast of 2014 Income and Expenses was reviewed. Highlights were:

- Net Cash Flow for 2014 now estimated at \$104k vs Budget of \$190k
 - Water Sales, net of additional pumping costs, were \$15k positive due to higher than projected water usage (drought related)
 - Repair and Maintenance costs were \$20k over budget, primarily due to the costly break in the Grove supply line last winter
- Capital Expenditures for 2014 are estimated at \$55k vs Budget of \$25k
 - The Board decided to install well monitoring equipment (using air lines) after the budget was developed, at a cost of \$15k. However, when the pumps were pulled to install the air lines, it was noted that a number of the pumps were ready to fail. Given that the pumps were already pulled, it made sense to do the replacement immediately, rather than re-installing the old pumps and waiting for them to go out. As a result, costs for the air lines and pump replacement will total \$39k, which is the primary reason for the budget overage.
- Ending cash for year end 2014 will be approx \$59k vs Budget of \$94k

2. 2015 Budget & White Oak Tank Capital Expenditure

A Budget for 2015 was presented for Board review and discussion. Highlights were:

- Key Assumptions
 - Water usage for 2015 was projected to be lower than 2014—a 3 year average of 2011-2013 usage was used since 2014 was felt to be an abnormally high usage year. Consequently, water sales revenue for 2015 is budgeted at \$105k vs 2014 actual of \$126k
 - Maintenance and Improvement charges were recommended to be increased to \$200/quarter from their current level of \$120/quarter. This additional revenue is necessary to build up our cash reserves in order to keep the White Oak tank replacement on schedule for 2016 as planned one year ago.
 - Maintenance and Repairs are budgeted at \$30k for 2015 vs a 4 year average (2010-2013) of \$17k. M&R in 2014 will total \$37k, but as with water sales, this is considered to be an anomaly.
 - Known changes in operating costs were budgeted (PayPal charges, new bookkeeper contract, AB240 compliance costs)
 - An allowance of \$500/mo was made in the 2015 Budget for incremental increases in water testing and regulatory compliance to allow for the use of an alternate outside service (e.g. Weeks, Jerry & Don's). Weeks has proposed a package of services for \$880/month and it is anticipated that if we used Weeks, some of Ray Zastrow's monthly costs would be reduced, hence the \$500/mo net cost allowance in the budget.
 - An allowance of \$40k was made in the Capital Expenditures to cover unforeseen capital projects (such as the well monitoring air lines) that may come up during the course of the year.
- White Oak Tank discussion
 - The White Oak tank is in need of replacement and despite a recent patch, is only functioning at 60% of capacity. At the end of 2013, the Board had targeted 2016 for tank replacement.
 - Bill prepared a budget for tank replacement, which the Board reviewed for \$219k.
 - Through our contact with the tank vendor, a leasing company has emerged to propose financing for the tank. If lease financing were utilized, the Board could replace the tank in 2015, one year ahead of schedule.
 - Lease terms discussed:
 - TOTAL LEASE = \$141k
 - Cost of tank \$110k
 - Sales Tax \$9k
 - Soft Costs \$22k
 - Broker fee \$2750
 - Term 3 years
 - Interest Rate 4.61%
 - Monthly Payment \$4,277
 - Total Interest Cost \$12,622

- Key 2015 Budget Conclusions
 - Net Cash Flow of \$127k, after the M&I increase and 6 months of lease payments
 - Cap Ex of \$75k, including the \$40k allowance, but excluding White Oak tank replacement
 - White Oak Tank net costs of \$78k (\$219k Budget less \$141k anticipated financing via lease)
- After discussion and review, the Board unanimously approved the following:
 - Increase M&I charges to \$200/quarter
 - 2015 Budget as proposed
 - Entering into lease financing for the White Oak tank, under the terms summarized above.

3. Electronic Billing and Payment

Dee Young will take over billing effective January 1, 2015. She is on schedule to launch electronic billing in the first quarter (i.e. billings in January 2015). Members will be able to pay via Pay Pal or with traditional checks.

4. Retention and Storage of Records

A policy was reviewed and recommended by the Finance Committee and was sent around to the Board prior to the meeting. The Board approved the adoption of the policy.

5. Sale of Excess Parcel (Mesquite)

The Water Company owns a parcel on Mesquite Court that has some springs. Bill Angeloni has advised that the State generally frowns on springs (considered surface water) as a water source for a mutual water company. The spring box on the parcel is no longer in service, nor are two old small redwood tanks. It is unknown whether the parcel would provide a water source of value to the Water Company in the future.

Leo Merle reports that one of the neighbors may have an interest in acquiring the parcel. Dave has started some preliminary investigations with local appraisers. However, most appraisers are not comfortable appraising a bare land parcel. Our situation is further complicated because it is unknown whether the lot is "buildable". For example:

- Does the property perc?
- With the presence of springs on the property, are locations available for an access road and home site?
- Does the parcel meet the minimum lot size that the County will allow for a residence in this area?

A report from a qualified professional (e.g. engineer) would be necessary to evaluate the lots suitability for development. A committee was formed (Bill Angeloni, Celia Schake, Mike Buckley) to obtain cost

estimates and develop an action plan for next steps in conducting this evaluation, but the Board did not take any formal action on approving a budget or expenditure of funds at this time.

6. Solar Power Feasibility

Diamond A resident Bart Vaio is investigating the feasibility of installing solar panels to offset our electricity costs, which are our single largest operating expense. The study has not been fully completed although initial indications are not promising.

OPERATIONS AND TECHNICAL – Patrick Treacy and Bill Angeloni

1. Performance of distribution system this quarter

Bill Angeloni reported that all the systems water tests have passed since the Water Emergency ended in late September. There was no definitive cause identified for the failing tests that resulted in the water being declared unsuitable for drinking, but various housekeeping issues have been addressed since the problem arose.

2. Status of Zone One Tank (i.e. the White Oak Tank)

This quarter there was an overflow of the Zone 1 tank, this was due to a signal problem in the telephone lines that communicate with the pump (at the rec center) that feeds the tank. It is planned to replace the telephone lines in this location with a radio system, this work is planned in Q1 2015. Drivers worked on the lower half of the tank on sealing or at least reducing the leaks that continue to impact the operational capacity of the tank. The tank can't effectively be filled beyond 2/3 full, as the upper portion of the tank is not serviceable. The outlet valve on this tank is also defective and needs replacing. These issues help highlight the need to expedite the planned capital work in this location. The Boards recommendation for work on the White Oak Tank is covered in the financial section of this report. The Chairman requested that housekeeping issues at control house for the Zone 1 tank be addressed in the interim.

3. Back Flow Valve at Tank #3

In order to reduce risk from contamination from three service connections due to low differential water pressure, Bill Angeloni recommended that backflow preventers be placed on the members' side of the meter and that the Water Company would pay to have this work completed, the Board agreed with the recommendation and Bill will make contact with the relevant members to coordinate the work.

4. Residential Pressure Regulators

It was recommended by the Chair that the need for a residential pressure regulator again be highlighted to members in the upcoming quarterly newsletter.

5. Water Company Service Provider

The technical committee interviewed a local service provider on the technical and professional services they might be able to provide to the Water Company. The committee plans to interview other service providers and bring a recommendation back to the board in Q1 2015, on which service provider would provide best value to the Water Company and whether/when a service contract might be entered into.

GOVERNANCE - Peter Hohorst

- The board authorized \$2,000 to engage legal assistance to revise the By Laws to assure compliance with AB240. Peter was tasked to contact Wes Strickland, a lawyer specializing in water regulations to start the process.

COMMUNICATIONS – Joe Lieber

- A newsletter will be issued in early 2015

PERSONNEL, PROFESSIONAL SERVICES AND ADMINISTRATION - Dick Bryan and Dee Young

- Bookkeeping transition will be complete January 1, 2015
- Rules and Regulations (1987) have been updated by Shirley and Dee. Peter will review.
- Outsourcing of selected company operations will be outsourced to water service providers in the future.
- Process for developing agenda and meeting notes:
 - Committee leads provide agenda for assigned area of responsibility to Chair four weeks prior to the board meeting to allow for compilation and posting by the Chair two weeks prior to the meeting.
 - Committee leads report and lead discussion for area of responsibility during the board meeting.
 - Committee leads provide meeting notes to Chair two weeks after the board meeting to allow Chair to compile and post the notes on the Board Postings Page of the Diamond A website.
- The board received comments from the attending shareholder guest.
- Preliminary dates for the 2015 annual meeting are March 29 or April 12.

Meeting Adjourned at 9:20pm