

Squaw Valley Mutual Water Company

Annual Meeting

10:00 a.m. Saturday, September 3, 2011

Community Room, Public Service District Building

Minutes

Call to Order: President Margot Garcia called the meeting to order at 10:06 a.m.

Roll Call and Establishment of a Quorum: Secretary Lynn Suter called the roll and a quorum was established. President Garcia noted that a Quorum is 50 Members, and that the Board received far more than 50 proxies as well as the Members present at the meeting.

- **Directors Present:** Bossung, Burke, Garcia, Mercer, Salinger, Suter.
- **Directors Absent:** Adriani
- **Members Present:** Dave Brew, Sally Brew, Harold & Cecile Weaver, Carl Gustafson, Gate DeMattei, Mike Geary, Buck & Nina Thys, Mike & Diana Moore, Chas & Jean Luckhardt, Anne-Marie & Cory Giese, Steve Brigman, John Collins, Judie Stepner, Carolyn Reid, John Reid, Marleen Barnett, Andrea Leisy, Tim Mattheis, Bob Buckter, Dan Kenney, Phil & Naomi McGinn, Julee Rosa, Bill Noble, Steve & Laurie McCarthy, Dave & Marilee Evasovic, Doug Matheson, The Klaussens, Gayle DeMattei, Harding Brown Family Trust, Diane & Frost Prioleau, Peter Werbel, Nancy Bartusch, John Sproehle, Cynthia Blackford, Mina Tao, Brian Foster, Trevor Buck, Frank Sahlman, Renaud Gignoux, Doug Thompson, Roger Gill, Greg & Lou Anne Parker, Kathy Kiely Felix, Ed Hanaveld, Jon Shanser, Jack Johnston, Roger Pierucci, Dale Cox, Ken Baber, Tuck Wilson

Call to Audience for any item not on the agenda: President Garcia called for items to be added. There were none.

Approval of Agenda: Director Suter moved, Burke seconded and it was unanimously passed that the Agenda be approved.

Approval of Minutes of 2010 Annual Meeting: Director Burked moved, Bossung seconded and approval of the minutes of the 2010 annual meeting was unanimously passed.

President's Report: *President Garcia's Annual Report is included in the agenda package for this annual meeting.*

- Activities Summary:** President Garcia stated that in the past year the Board has looked to our future to create a company and water service that will serve us now and into the future—a system worthy of Squaw Valley with no leaks, no boil water notices, adequate water pressure and adequate fire coverage. Five years ago the Board determined that work was needed on a system that had been deteriorating. The Mutual didn't know its priorities, or how bad the system was. Auerbach Engineers did a study and report which was the beginning of our journey. The first undertaking was the new steel tank, for which we researched and applied for grants. The John Chisholm tank project is completed and we spent most of the year assessing and applying for an inexpensive USDA loan for the next phases of the system rehabilitation project. Many members came to meetings, and neighborhood house meetings. Newsletters and letters of explanation were sent to the membership. The biggest issue has been lateral connections and moving the water mains from back lots into the street. The most troublesome section is Upper Sandy Way, where there are aged 2-inch galvanized pipes—the size for sprinklers. The Board, with input from members, developed a wide range of options to pay for the laterals. We also must replace the pump house, which doesn't meet codes for protection of the creek, security against malicious contamination, and power outages. The bid by Campbell construction was accepted (See President's Report in Agenda Package).
- System Performance:** The President noted that professional operations management and monthly testing for bacterial contamination resulted in no instances of problems in the past year. Mutual has also completed all required testing for lead and other potential contaminants, and is in full compliance with all state and federal regulations for safe drinking water. Last fall the pumps and screens were pulled for Wells #1 and #2, cleaned and inspected, and findings conclude there is no need to re-drill the wells nor replace the pumps. She reported on the status of pipes throughout the system (see President's Report) and the propensity for leaks in the system. Pipes continue to deteriorate, and water usage records indicate many leaks.
- Status of Aquifer:** President Garcia reported on results of the Technical Review Committee for the Resort at Squaw Creek. She participated in the meeting in lieu of David Brew, the Mutual's representative, noting the need to stay on top of invasive species and contaminants from golf course fertilization. The water quality monitoring report indicates that in general nitrogen and phosphorous levels are stable, with one well showing an increase compared to the others. There were no applications of herbicides or pesticides in 2010.
- Company Operations:** The Mutual is being run efficiently, pays its bills on times, and approves annual contracts for office managers and a system operator, and has an adopted budget. See website at www.svmwc.com for agendas and minutes of past meetings, reports from consultants, finance, etc. In 2010 water year the Mutual collected dues and assessments from all members.
- SVMWC Board:** The Board has met six times, has a wide range of expertise and has worked well together. Special thanks go to Treasurer Alisa Adriani, who is retiring from the board after eight years of exemplary service, and to Director David Salinger, retiring after four years, whose experience as a physician helped keep the Mutual's water safe, and as a lawyer brought analytical and legal expertise to Board deliberations.

- **Audience Questions:** Member Andrea Leisy asked a question about chlorination, to which President Garcia replied the Mutual's level is as recommended by CDPH and the Mutual's system manager.

Treasurer's Report: Manager Anne-Marie Giese gave the Treasurer's Report in the absence of Treasurer Adriani. The full report is in the Annual Meeting Agenda package. She reported that the Mutual has not drawn upon its line of credit, has paid off the loan from Plumas Bank, and that there are still 15 days left in the grace period for 30 members with outstanding assessments. Three full years of financial reports and the outside auditor's report are available for viewing on the Mutual's website. She noted the cost of the water system improvement project to date (three fiscal years) at \$283,517.20. See report in Agenda package for details.

- **See full Financial Statements and Independent Auditors' Report in Agenda Packet or on our website at: www.svmwc.com**
- **Audience Question:** Member Greg Harding Brown asked about the cost of scoping the wells, and the determining factor in decision to scope. Manager John Collins explained that we didn't want to replace equipment or build new well houses if there were no significant issues. The determination is that there are not significant issues with the wells and pumps, but the well houses are a threat to groundwater, not up to code, and need replacement.

Introduction of Guest: President Garcia introduced Michael Geary, new General Manager of the Squaw Valley Public Service District. Mr. Geary addressed the audience, noting that he has had a chance to speak with Operations Manager John Collins about the Mutual, and offered assistance and cooperation in any way possible. He suggested carving out an agenda item at PSD meetings for a report from the Mutual, and noted he is willing to attend Mutual board meetings upon request. President Garcia noted that SVMWC has a mutual aid agreement with the Public Service District in the event of emergencies.

Operations Manager's Report: See written report included in Meeting Packet, also available online. Manager John Collins reported that our system meets all state and federal standards. Water production was down as a result of the new tank, then up after the heavy winter due to leaks for which we have no way of determining location unless they show up above ground. If Members hear any kind of water noise at, under, or near their houses they should call and he will inspect. He noted monthly water production from each well, listed typical operations and maintenance activities, and reported a good relationship with PSD. He noted the start of annual fire hydrant maintenance, keeping daily track of chlorine levels, and work with California Department of Public Health.

Update on System Improvement Project – Shaw Engineering. Steve Brigman noted two sets of construction drawings and sets of maps of the entire system for examination by Members, noting that the maps are online. He briefly described the project and its status to date. At the request of *Member Ken Baber*, Mr. Brigman said he will also put the construction plans online at the Mutual's website. *Member Dan Kenney* asked what pipes were being replaced underground, and if they included the old galvanized pipes. Mr. Brigman described the specifications for the PE pipes which will replace the old ones, noting the high density polyethylene pipe that will be used is all the same from meter to mains, water mains, part of the water loop, and for fire and water

service. *Member Greg Harding Brown* asked for clarification that the Mutual has already spent \$283,000 on the project, which was confirmed by Mr. Brigman. *Member Bill Noble* asked about how line breaks are found, noted the \$10,000 spent in two months, and asked how many laterals and how many main lines have leaked. Mr. Brigman noted the \$10,000 was spent on two main lines, and homeowners paid for that work on laterals.

- ***Status of project:*** Mr. Brigman noted that all plans for construction of water lines are complete. Request for bids went out in July; six bidders participated; Campbell Construction out of Sparks, NV was the low bidder at \$2,044,050. The County has issued an encroachment permit; USDA reviewed the bids, all forms and attachments, and accepts the bid and authorized the award. Notice of award has been sent to Campbell. A preconstruction meeting has been set for next Thursday, with important players, including USDA in attendance. We need to “dot one more i” and with all other conditions satisfied are hoping to go into construction the first week in October in order to get some construction completed prior to onset of snow. *Member Tim Mattheis* asked if winterization and mobilization is included in the contract, to which Mr. Brigman answered “yes” but explained that after snowfall we won’t have a staging area for materials. *Member Peter Werbel* questioned the bids that came in for Phase 1, noting that there were three bidders under \$2.4 million and three bidders over. Mr. Brigman noted that that the phases refer to the Auerbach report, and discussed the advantages of pipe replacement on Lanny, Christie and the upper part of Sandy—39% of the current total system in one package rather than as three separate projects. *Member John Harding-Brown* asked if the Mutual’s conditions required more of a contractor than USDA. Mr. Brigman replied that the Mutual requires qualifications and several certifications of contractors, but generally gives us the responsibility of insuring the appropriate licenses and certificates are in place. *Mr. Harding-Brown* also asked about state and federal regulations regarding prevailing wage, to which Mr. Brigman stated the USDA requirements do not demand payment of prevailing wage, and provided details on performance bonds, insurance certificates and liquidated damages for general and construction liability. *Member Dan Kenney* asked the extent of necessary horizontal drilling, and Mr. Brigman estimated that 99% of construction will be by open trench.
- ***Clarifications:*** *Member Steve McCarthy* asked for clarification on whether a contract is actually in place, whether it is final, and if the Board’s decisions are based upon the understanding that everybody would help with the cost of the laterals. His specific concern is that the in-street project near the church is closer to his connection than his address on Christie Lane, and would the contractor take the best course into consideration. Mr. Brigman invited him to look at the documents during a break in the meeting, noting that the contractor has flexibility to adjust the location for practical considerations. *A Member* inquired about the indemnity agreement with the County, and if it was a “done deal.” President Garcia answered that the County’s conditions are the only way to get the encroachment permit and that the Mutual’s attorney is paid to look after our interests. *Member Tim Mattheis* questioned the lowest bid, and *Member Harding-Brown* raised a question about indemnifying the County. Director Mercer stated that the mutual cannot be completely held harmless and may be liable for anything violating the County’s agreement. *Director Burke* suggested staff make sure the Mutual’s bond and insurance is the best-cost alternative, and that they investigate insurance options. He noted that in the event the construction project puts the Mutual at risk, the

board must consider our liability, while recognizing the County's right to an indemnification provision. Office Manager Anne-Marie Giese noted we have \$3 million in liability insurance and \$5 million in commercial excess insurance, and in using the county's easement we are responsible for road replacement in any case.

- ***Sandy Way Specifics:*** *Member Dale Cox* noted that for homeowners on the downhill side of Sandy Way, having a meter box in the street is a big hassle, and asked if meter box locations are carved in stone. Mr. Brigman stated that they are not, and the contract documents allow for adjustments of meter fit locations. He stated it is a right-of-way question of whether or not an easement might be needed from a neighbor, but there is no issue of such flexibility purely from an engineering standpoint. In the case described, he stated the path of least resistance is most likely to put meters on Lanny, and not Christy.

Election of Board Members: President Garcia announced that she requested that Mr. Ed Heneveld—not a member of the Mutual—oversee the election. *Member Buck Thys* requested that *Member Roger Pierucci* also be appointed to oversee the election, and made some points about interpretation of the by-laws. He and President Garcia discussed issues regarding contested ballots or proxies, and legalities as explained by the Mutual's attorney. There was further discussion about proxy votes, letters directed to the membership and similar issues which came up in the weeks prior to the Annual Meeting. *Members Dale Cox, Patti Guilford* and *Ken Baber* also provided comments. *Member Russell Poulsen* moved that all proxies be counted, and the President ruled the motion out of order. *Members Ken Baber and Patti Guilford* discussed conversations with Board members during the past week. President Garcia ruled that both Mr. Heneveld and Mr. Pierucci could oversee vote counting.

Statements by Candidates: Candidate statements were presented by Directors Steve Burke and David Mercer and by Members Gate DeMattei, Tim Mattheis, Patti Guilford, and Chuck Schaller. Candidates Jim Morrison and John Coyle were not present.

- ***Steve Burke:*** Candidate Burke offered introductory comments about his background as head of mergers and acquisitions at Intel, and as a builder himself. He noted he is an incumbent who worked continuously to address serious deficiencies in the SVMWC system identified in the Auerbach report, noting that the Mutual used three times as much water in summer as winter. He felt the Board made remarkable progress, starting with exploration of a 6% loan, and getting the interest down to 3.75%. Failing to take action now will be more expensive in a couple of months. The current loan is lower than possible from any other agency or corporate entity. There were no questions of Mr. Burke by Members or Directors.
- ***Dr. Gate DeMattei:*** Dr. DeMattei introduced himself, noting that he is a retired doctor who is now fully engaged in property management and building. He stated that he has reviewed 2 years of SVMWC agenda and minutes as well as some of the articles and bylaws. He noted the many hours of work, analyses of many consultants, the meticulous bookkeeping, and excellent website of the Mutual. However, he believes Members should have been given an opportunity to vote on alternative proposals, and feels the Board is in violation of 8.4.1 of the Bylaws. He went to Reno to look at the construction plans in detail, and walked the back lot line, which raised

questions that may or may not have been addressed by the Board. There were no questions of Dr. DeMattei from Members or Board Members.

- ***Patti Guilford:*** Ms. Guilford introduced herself as a 40 plus year resident of her home on Christy Lane. For all that time she has shared equally in all of the fees and assessments that have been levied by the Mutual's Boards. Director Burke asked Ms. Guilford if she is in favor of going ahead with the project. She stated she wasn't sure yet, and is reluctant to expose her property to a repayment of a 40-year loan. Director Mercer noted the loan is not an encumbrance on any individual property, but on the Mutual itself, and would be paid off "just like a water bill." *Member Carolyn Reid* stated she is very concerned about the money situation. She noted that it is very difficult to equate full time residents with second homeowners, and questions the effect of so many people who don't live in the Valley. She asked what happens if people default on their payments. Director Burke stated there is only one recipient of the loan—the water company—and that individuals do not incur debt. Part of the water bill will be payment toward the loan. President Garcia requested postponing this discussion until after the candidates statements are finished.
- ***Tim Mattheis:*** Mr. Mattheis introduced himself, his wife Andrea Leisy and his in-laws, Roger and Stephanie Pierucci, saying he is an architect, and a mountain biker in his spare time. He noted his appreciation for the hard work done on the project, but that he feels there are two significant omissions that deserve recognition: First, the assumption that the existing infrastructure is rotten and about to fall apart, and that repairs cannot be dealt with on a pay-as-you-go basis. He feels a financial analysis of the alternatives is needed to determine the cost of options other than the full construction project. He noted that many water jurisdictions have back lot lines that are too expensive to move, and that this option may be the best engineering choice, but not the most cost-effective. Second, a project that could cost \$40,000 per house over the extent of a loan should have gone to a vote of all shareholders. *Member Buck Thys* asked if the Board could have notified shareholders early enough to pursue incremental increases and pay-as-you-go options. *Mr. Mattheis* answered yes, that option could have been done.
- ***David Mercer:*** Mr. Mercer introduced himself as a life-long resident of Squaw Valley who was born in Tahoe City, and that Patti Guildford knew him "better than anyone" and encouraged him to get on the Board. He grew up drinking the Mutual's water, lives on Lanny Lane with his son and daughter-to-be, and wants them to have safe, reliable water and a fire flow that is up to code. He stated that the long-term situation for the company is that "we need to fix the system." It has run for many years without any substantial contribution to infrastructure, and urged Members to look at the system like a car that needs new tires or it can't run. He noted that he is perfectly willing to pay what it costs for an operating system that provides safe, reliable water and an adequate fire flow. *Member Kathy Felix* asked, "Is it your belief that if we had done it piecemeal that we would not be adequately protected by fire?" Mr. Mercer replied "yes" and noted that he sees no way to do the project piece by piece because of the savings from economy of scale, ongoing unknown

assessments, and prohibitive length of time it would take. Right now the Mutual is out of compliance with fire codes, some Members could lose their insurance because they are knowingly out of compliance. President Garcia stated that the board looked at an assessment option two years ago, but the total amounts needed over time would be prohibitive, as described over hours of membership discussion. *Member Mattheis* asked if Mr. Mercer had considered a vote of the Membership on the construction project. He answered that he had considered the question and as a shareholder himself, and a representative of shareholders on the board he feels it appropriate that the Board decide on such a complex issue. Further discussion ensued including questions from members, answers from Mr. Mercer and others over details in financing, construction of the well houses, cost-effectiveness of pay-as-you-go repairs.

- ***Chuck Schaller:*** Mr. Schaller introduced himself and discussed his experience building wastewater treatment plants over 30 years, stating that piping systems do wear out. At 50 plus years any such system can expect more failures and more potential catastrophic failures. He stated it is cheaper to build in the current economy, better to build all at once and receive the benefits of a new system. He noted the replacement of only 13% of the main pipes to date, and that the Mutual is a small company spread over a large area. Although the cost is spread over few residences, it is one of the costs of living in the Mutual's service area. There were no questions for Mr. Schaller.
- ***John Morrison:*** Mr. Morrison was unable to make a presentation to the membership because his wife is expected to deliver a baby today.
- ***John Coyle:*** Mr. Coyle was unable to make a presentation to the membership because he is in Europe.

Membership vote: President Garcia called for a recess while voting commenced.

The meeting reconvened at 12:07 p.m.

President Garcia called the meeting to order. The following is a short summary of the issues addressed during discussions, and a question/answer period on the subject of the construction project.

Further discussion ensued on the prepayment option, noting those who pay upfront do not pay interest, and details of how that option would work, what happens in case of default, conditions of USDA loan don't preclude prepayment, and the historically low interest rate of 3.75%. It was clarified that the construction costs do not cover the cost of replacing laterals, and that this issue is still undecided. *Member Dale Cox* indicated that putting water lines in the streets is the best economic option for the Mutual, judging what is best for himself or for the shareholders, and that his thought process has undergone a complete reversal since last year. He cited several system

failures including early spring water surging out of a Lanny Lane box which wore a canal down the street about 2 feet deep, a loss of 30-50 gallons a minute running for 2 1/2 months because nobody could get to the leak, and that “pay-as-you-go” is a tow truck mentality that results in fixing something that is worn out. “Our system is on its way out,” he said. He applauded the board for their accomplishment on putting the construction project together, how they did it, and the work of getting the information needed to sit down today and understand what is needed for all shareholders, and wanted people to know and understand that most shareholders in the company want to see the infrastructure improved, and wants assurance that a new board not to “go backwards.” He noted that his rights may have been stepped on as an individual by not having the right to vote. He asked that the “four people who are unhappy” still make sure the project goes forward, and that the current Board did exactly what the membership asked of them at last year’s Annual Meeting, though “may have carried it a little bit further.” He said, “We now know what it takes, know it will cost some dough, we should think about everybody and not our individual wallets, and move forward. All will benefit from cooperation and moving forward.” Member Andrea Leisy asked if the membership should still have a vote to which Mr. Cox replied that whatever the board decides to do, “don’t vote your wallet”. It took 50 years to get here, it may take 40 to get out of it, but I still feel my rights have been tread upon with no opportunity to vote.” *Member Tuck Wilson* asked to address Andrea’s question, saying that no, he would not like to see the issue put to a vote, as it is the difference between a democracy and a republic. “I don’t have the time, information and knowledge to cast a vote, and would rather have the people most knowledgeable make the decision,” he said.

Member Russell Poulsen stated that he had many problems with past water boards, but this is not one of those instances, that he believes in the project and agrees with it. His problem is with the laterals, and feels at least one option would invite legal action against the Mutual. “When we look at the whole project, moving water mains to the street is a win-win for the whole company, but only works if people moving laterals are treated equitably.”

Discussion Laterals: Further discussion ensued regarding the options for laterals, details of USDA policy, insurance costs, incentives for replacing all laterals, and state requirements for water meters. President Garcia referred members to the options described on the document included in the Meeting Packet, which were discussed at length.

The President declared a recess while results from the election are tabulated. .

Announcement of Election results: President Garcia reconvened the meeting at 1:22 pm and announced that three types of ballot had been counted: Originals as received from members, additional ballots with all eight candidates listed, and ballots submitted at the Mutual meeting. All ballots were counted except the ones with four names on it, which didn’t matter in the results. With all ballots counted, the new members of the Board of Directors are:

John Coyle
Gaetano DeMattei
Patti Guilford
Tim Mattheis

President Garcia recognized with praise the retiring Board Members: Treasurer Alisa Adriani, David Mercer, David Salinger, and Steve Burke, noting that their wisdom and expertise will be missed and thanking them for their service.

Adjournment: It was duly moved, seconded, and passed unanimously that the Annual Meeting be adjourned.

Respectfully submitted,

Lynn M. Suter

Secretary

Squaw Valley Mutual Water Company