

SQUAW VALLEY MUTUAL WATER COMPANY
Special Board of Directors Meeting
March 24, 2012
Approved Minutes

1. Call to order

President John Coyle called the meeting of the Squaw Valley Mutual Water Company Board of Directors to order at 3:02 PM on Saturday March 24, 21012 at the Squaw Valley PSD Community Room.

2. Roll call and establish a quorum - Lynn Suter

A quorum was established. Present were Directors Coyle, Garcia, Suter, Mattheis, and DeMattei. Director Guilford attended via teleconference for portions of the meeting. Director Bossung was not present.

Staff present were Anne-Marie Giese and Steve Brigman. There were approximately 40 members and guests present.

Members Present: Sally & Dave Brew, John & Gayln Johnson, Carl Gustafson, Bev & Les Wilson, Charlie Luckhardt, Tom & Liz Day, Emily & Renaud Gignoux, Donn & Kathi Mall, Brian Sheehan, Tom Eberle, Bud & Deb Travaille, Bill Downs, Dale Cox, Jim Lindstrom, Jamie Williams, Jon Shanser, Cynthia Goguen, Patty Hach, Charlie & Mary Jones, David and Judie Stepner, Barry Thys, Rick & Betsy Sylvester, Hans Burkhart, Greg Parker, Jim Kass, Tuck Wilson, Peter Werbel, Bill Meleyco, Mike Geary, Roy Farrow, Alba Balice, Marcia Barnett, Bob Barnett and Bill Noble and John Wilcox

3. Call to the audience for anything not on the agenda

Les Wilson stated this is a meeting of the membership and not the Board. He asked that a quorum be established by the number of members in attendance. Director Garcia referred to the Bylaws noting Liz Day had brought to the board 65 proxies for this meeting and that establishes a quorum.

Peter Werbel asked for more detail in the Bylaws that call for a meeting. Director Garcia referred to the section 4.4.1 which specifies that the Board of Directors "...shall call a meeting at any time upon the written request of twenty five members of the corporation...".

Les Wilson stated this meeting was called by the members for a specific topic - reducing the cost of the project - and that is the only item that should be on the agenda. Director Coyle referred to a letter dated December 11, 2011, saying the items on today's agenda are referenced in that document. The question before the group today is a discussion on whether or not to modify the Capital Improvement Project (CIP) scope of work and a vote is not called for.

Dale Cox addressed the group, saying the Squaw Valley Public Service District (SVPSD), of which he is a Board member, recently enacted a strategic plan. During the planning process, Director Garcia expressed concern about comments in the preliminary draft plan having to do with the Mutual and SVPSD merging or SVPSD acquiring the Mutual. Dale Cox reported he and other SVPSD Directors commented to the facilitator that it could be in the best interest of the community if an amicable merger would occur. As a shareholder of the Mutual, he would like to have a referendum of all shareholders asking how many would like to dissolve the Mutual and move forward with one water company in the Valley. Dale Cox asked for a discussion at a future date on the value of the Mutual's water rights and how many want to see a consolidation in order to streamline operations and reduce water rates.

Roy Farrow asked if the Mutual has water rights and if so, what the value is. Director Coyle said that the Mutual has water rights and their value has not been determined.

Peter Werbel asked the Board to agendize at a future meeting an update on the Bylaws, how Mutual business is conducted, and a discussion on possible consolidation.

Tom Day said he has attended many Mutual Board meetings and the discussion on how to upgrade the system has been heated, mainly because of costs. For the past year, the membership has been asking for a vote. The current

Board's election showed that people wanted a change in how decisions are made. A petition in October asking for a vote of the membership was signed by over 100 members. He asked that the issue be on the agenda and for clarification on what the special meeting proxy was about.

Charlie Jones asked if all members have been notified of what the modifications are. He received a notice of this meeting, but not a proxy. Director Coyle noted the proxy was not sent by the Mutual, but by some members. Director Garcia said she did not receive one. The petition with a proxy was not sent to all members.

Liz Day said if a ballot had been sent to each member so they could vote in the privacy of their own homes, a lot of animosity could have been alleviated. She asked for a vote of the membership as to whether or not a mail-in ballot would be a good idea. She suggested the Board describe their plan and the petitioner present their plan and a vote of the membership be done by mail instead of an open meeting that creates tension.

Les Wilson stated a special meeting without the vote of the membership is absurd.

Barry Thys stated the Board approved a \$4 million loan and a contract that many feel has problems with costs and the scope of work. He thinks that the membership should be able to vote on the project. He feels it is a bad plan and there are flaws and problems with it. His father is trying to educate the membership that a lot of money could be saved if the project is reconsidered.

Tuck Wilson said when he first heard about the project, he thought it was a lot of money. But he did some research and is convinced that the project is good. He said he understood saving money by not building a pump house now and reviewed specifics of the project. Tuck Wilson asked that someone representing Buck (Thys) and Les (Wilson) explain why they believe only a \$300,000 project should be considered.

4. Adopt the agenda

The group asked that a discussion on a vote by the members on the changes suggested by the petitioners be added to the agenda as 8 A

It was moved by Director Suter and seconded by Director Garcia to approve the agenda as amended. Motion carried unanimously.

5. Update of Capital Improvement Project - Steve Brigman

Steve Brigman reported the project is still in "winter construction shut-down" mode. Materials totaling \$522,000 (about 75%) were purchased in January and February and are being stored. Per Placer County Ordinance, work can begin May 1. The well replacement project has been put on hold, per Board direction, until it is determined whether or not KSL is purchasing the Poulsen property, which surrounds the land on which the well house sits.

6. Upper pressure zone discussion

Les Wilson explained why he believes the Shaw Engineering plans call for more work than is necessary, particularly as regards valve replacement in the upper pressure zones. Discussion followed regarding specific sections of pipe and types of valves and whether or not they need to be replaced, with Mr. Wilson and Steve offering different points of view. Director Garcia stated an outside engineer from USDA and Steve, a Professional Engineer (PE), have reviewed the project in detail. The current plan calls for keeping valves open and looping water so it does not stagnate. Mr. Wilson does not feel that much work is necessary at this time.

Director Coyle reiterated that an engineer was hired to design this project. He asked that Mr. Wilson and Steve continue their dialog outside of this meeting. If a plan that meets standard practices and saves money is developed, the Board may consider it. Mr. Wilson acknowledged that he is not an engineer and voiced concerns about leaking valves. He does not agree with Steve that keeping valves closed is bad because of possible leakage across the difference in pressure.

Greg Parker stated previous Boards have spent years researching the project. He appreciates that Les Wilson is trying to save money and he hopes that the dialog between Mr. Wilson and Steve continues, but he does not feel he has the knowledge to make an intelligent decision about such a complicated issue. He thanked this and prior Boards for their efforts.

Dale Cox said there is an opportunity to move this company forward. He has been participating with the Mutual for

over 40 years and there have been some times when people have not been able to shut off water when necessary, causing damage to property. This is an opportunity to do things right. It will cost some money but for 60 years the Mutual has been doing patchwork repairs. As a result, the system is totally illegal and unacceptable by current standards. The system is in crisis mode and although it will cost a lot of money, it is time to do things right and in the best interest of the shareholders. Let's fix the system correctly. Let Steve, who is a licensed PE and has been hired to do this job, do it.

Les Wilson asked that the AC (asbestos cement) pipes planned to be replaced be tested before being replaced and reviewed various testing methods. Steve stated that often the pipe is not the biggest problem, it could be tree roots or other ground issues, cast iron fittings, service connections, and other system components, in addition to the pipe being beyond its life span. Les Wilson suggested scheduling the replacement over a period of years. Director Coyle responded that although that may work going forward with new pipe, there was no scheduled maintenance of the pipe system that has been in the ground for fifty plus years which has led to the current situation.

Director Garcia noted the Board made the decision to move the project along as quickly as possible because given the current economic climate; construction costs are less expensive than they may be in the future. Had the work been done 2 years ago, it might have cost even less. Currently approximately \$20,000 - \$30,000 is spent each year to patch leaks. There was a deliberate decision to have all the work done at once.

7. Pump house discussion

Director Coyle said this project is on hold because KSL is considering a purchase of the Poulsen's land around the wells and putting a parking garage on the current location of the wells, which would mean moving them.

Director Garcia stated she was not at the Board meeting where this decision was made. She read from a legal settlement made with the Poulsen's regarding what would happen if the land were developed. The Poulsen's would be required to drill new wells for the Mutual and build a new pump house. Director Garcia said that agreement runs with the land and would be KSL's responsibility if they purchase the property. She felt that if the sale goes forward, it could still be 5-10 years before new wells are drilled or a new well house built. She has seen the new SVPSD well house, which cost approximately \$1.2 million and compared the two, noting the Mutual's is a tremendous liability. She questioned the timing of when a new one might be built and KSL's obligation.

Discussion followed regarding what KSL may be required to do and when. Director Coyle will consult Mutual Counsel on whether KSL would be obligated to fund replacement of a well house similar to the current one or bring it up to code. Steve raised the question of what USDA, the lender for the CIP, may require, given they have a deed of trust on the well house as collateral for the loan. The discussion continued regarding the potential timeframes, whether or not it would be prudent to upgrade the current well house, and how potential water needs for KSL's plans will impact the Mutual's current wells and well house.

8. Alternative back lot discussion

Director Coyle explained that the prior Board and Steve developed estimates for both street and back lot water main replacement proposals. The Board considered a matrix evaluating pros and cons of both options and determined it was best for pipes to go in the street, even though it is a little more expensive. The project was approved in September, the loan signed in November, and contracts issued. The proposal submitted by some members is to scrap most of the project and put the pipes in the back lot lines.

Les Wilson explained the proposal, saying it is not to scrap the entire plan, but to consider moving pipes on a case-by-case basis. The galvanized pipe above the eastern part of Sandy way should be replaced. But all pipe should be tested before replacing it. The Shaw proposal is to replace all pipe and move it into the street, but Les Wilson feels that not all pipe needs to be replaced.

Steve stated the 2008 Auerbach Engineering report recommended new pipe in the street and abandonment of rear lot lines. Shaw Engineering considered all alternatives. It became apparent that rear lot lines were not the right place to put new water mains. In addition to costly hand-surveying, which is necessary because it is not known if the existing water line is even in the easement, and getting temporary construction easements from every property, there are components difficult to put a cost to, such as risk and the physical nature of getting to the pipe through landscaping and natural vegetation. When the street is trenched, pavement needs to be replaced, but on private property, landscaping and improvements need to be replaced. Steve raised the question of fire hydrants at the back

of lot lines, saying that laterals would need to come to the street every 500 feet for hydrants. Water meters are a USDA requirement and it would be difficult to access them if they were at the rear of lots. In summary, the unknowns add a tremendous financial risk to the Mutual during construction, as well as possible difficulty in dealing with some property owners. Steve stated it is basic common sense and sound engineering to stay away from the back of lots. Although property owners will need to reconnect, the proper, prudent place for water mains is in the middle of the street.

Discussion followed regarding the issue and the areas of priority. The group considered the current financing with USDA and alternatives. Les Wilson said he knows of better loans available and suggested a business line of credit instead of a loan and suggested the project be phased. Director Garcia pointed out there was a tremendous difference in the interest between a line of credit (6.5%) and the USDA 40 year loan of 3.75%. In addition, the previous board had tried to find other loans, and banks were not willing to lend the amount needed over a length of time that would keep payments affordable.

Director DeMattei stated that the money-saving proposal from Buck Thys is good from the standpoint that he did a lot of work to decrease costs. However, there would be a lot more work necessary to make this proposal a reality, including engineering plans, permits, and a bid regarding the back lot line. When he considers the potential costs of cancelling the current construction contract and repaying the money borrowed on the USDA loan, Director DeMattei believes things have progressed to the point where it is not feasible to cancel, unless Mr. Thys wants to fund the money saving proposal.

Director Mattheis said the same proposal has been considered for the past two meetings. When he was elected, he supported a vote of the membership, but there was not enough support from the Board to support a membership vote on the project.. So the project moved forward with the current plan. When he considers what has been expended, the contracts signed, the loan in place, and the potential costs of getting out of the plan now, it could cost \$1 million. He questioned the purpose of the vote, given the cost to stop the project. Unless a compelling proposal is submitted, Director Mattheis is in favor of moving forward and getting the project done. Going backwards would be very costly and irresponsible and he has not heard any compelling arguments to do so.

John Shanser said he would like to keep moving forward and asked that everyone get involved in the planning for the replacements in the rest of the system. .

Bob Barnett supported the Board's direction, saying he does not want an unsafe system. The reasons for moving forward are overwhelming and although costs are an issue, he applauds the Board for moving forward. He feels this will help property values and reduce insurance rates.

Judie Stepner suggested the comments from Directors DeMattei and Mattheis be communicated to the rest of the membership to let them know why the project should move forward.

Les Wilson said he is not proposing the contract be cancelled, just that the price can be reduced by removing components of it with change orders.

Discussion continued regarding specific components of the project and whether or not there could be cost savings. Les Wilson suggested the project could be slowed down. Steve spoke to possible financial impacts of delaying the project.

Addition to the Agenda: Responses to Proposal sent by "Fellow Shareholders"

Specific items in the Proposal were addressed:

Rock Clause

Director Coyle said a rock clause in the construction contract with Campbell Construction was considered and intentionally not included.

Vote of the Membership

Director Coyle said the Board is allowed to make this decision and under no obligation to conduct a vote of the membership. At this point, what would the vote be? Les Wilson replied it would be a vote to reduce costs as much as possible. Discussion followed regarding the types of loans the Mutual is eligible for. Anne Marie explained the exhaustive search for funding for the project and why a USDA loan was considered the best option.

Dale Cox noted the loan is in place. He is satisfied with today's discussion and has confidence in Steve's work that is putting this company on the right track. The contract has been signed and it will be costly to go backwards. He is in favor of moving forward and getting the project done.

David Stepner applauded the patience of the Board. If people disagree with the position they have taken, they can vote Board members out.

Director Coyle thanked everyone for the comments, noting the Board feels this is the right decision.

9. Review of meeting & what needs to be done before next meeting

10. Next regular meeting – April 14, 2012 3:00 pm

11. Adjournment

There being no further business to come before the Board, the meeting was adjourned at 5:25 PM.

Respectfully submitted,

Judy Friedman, Recording Secretary

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