

**MEETING MINUTES**  
**Forest Lakes Mutual Water Company**  
**Board of Directors Meeting November 12, 2019 7:00 p.m.**  
**Public Session**  
**910 Fern Avenue, Felton CA**

**CONVENE MEETING/ROLL CALL:** The meeting was called to order at 7:00 pm by President D. Wade. Attending: Dirs. Wade, Dennis, Gonda, Yatson, Smith-Berdan, West. Absent: Wood. Staff: Cortez. Shareholders: H. Burnett, C. Barauskas; A. Kelly

**ADDITIONS/DELETIONS TO AGENDA:** Letter from Strategic Planning Committee M. Mobley

**SHAREHOLDER/PUBLIC COMMENTS:** None

**APPROVAL OF MINUTES:**

- October 8, 2019 Board of Directors Meeting, Public Session: It was moved, seconded and passed to approve the minutes of the October 8, 2019 meeting.
- October 22, 2019 Special emergency on-line meeting: Dir. Gonda moved to approve, Dennis seconded, minutes of the special emergency meeting were approved.

**COMPANY REPORTS:**

- Financial Reports: General Manager Cortez reviewed the October budget. Cash on hand at beginning of month = \$513,110.28; end of month, \$468,832.96. There was an overage for the month of \$10,708.12, and an overage for YTD of \$37,463.80. Nothing new was added to the existing list of overages. West moved to approved the report, Dennis seconded, motion passed.
- Operations Report: Cortez reported on progress with the Well 3A, 3B filter plant. Expected start-up 11/12. Testing and approval to follow. The flow control valve for the Gold Gulch filter plant was retrofitted. Tank 7: SCADA system needs the power pole installed and wiring completed. Well 4A replacement: A second estimate has just been obtained for the replacement of Well 4, significantly lower than the first, even though it includes the permitting as well as the demolition of the old well. Power outages: The system performed well during the recent Public Safety Power Shutoffs. We are able to survive a couple of weeks without power if necessary, although we would want to encourage conservation to avoid drawing down the wells. Water use: System-wide daily shareholder use was down from September although system-wide daily pumped increased. Loss rate for October = 8.5%.

**ADVISORY COMMITTEE REPORTS:**

- Recreation Committee: no report.
- HR Committee: To be discussed in executive session.
- Water Committee: no report
- Road & Safety Committee:
- ✓ Updates on projects: Cortez reported staging of projects to be complete shortly on Ferrari and McClellan. These are the last 2 projects for the year. She noted that staff did a great job on Scenic.
- Rules Committee:
- ✓ Follow-up: Multiple water connections: Letter to shareholders was approved, but there was lack of clarity of timing. Cortez queried whether it should go out immediately or with the assessment letter. Gonda indicated it had been his intent that the letter go out w/ the 2020 assessment letter, with the changes to go into effect in 2021. Agreed: it will go out with the notice of 2020 assessment letter. This will save on postage and give affected owners the opportunity to self-identify.
- Finance Committee: Committee met to develop draft budget. See under "Discussion Items."
- Strategic Planning Committee: See under "Action Items".

## NEW BUSINESS:

- **Action Item:** Pilot of flashing stop light: Dir. Yatson reported that the lowest cost option would be around \$1200 with everything involved. This option would require power. If a solar option were chosen, cost would be closer to \$2500. He questioned how we would assess effectiveness; he had checked with the City of Capitola which has such a light, they felt it had worked “for a while” but the effectiveness may have worn off. Smith-Berdan suggested that a berm might be more effective. After discussion it was decided to table the issue and refer it back to the Road and Safety Committee.
- **Action Item:** Resolution and adoption of 2020 Premium Only Plan allowing employee medical deductions to be made on a pre-tax basis: Cortez explained the purpose of this. It is something we have done annually. West moved to approve to resolve and adopt the 2020 Premium Only Plan, allowing employee medical deductions to be made on a pre-tax basis. West moved to approve; Smith-Berdan seconded. Motion carried.
- **Discussion Item:** SBA loan: Cortez reported on the status of the SBA loan. We have received the Loan Authorization and Agreement of a loan at 2.5% per annum, of \$479,000.00, with monthly installments including P&I of \$1978.00. Payments are based on specific sites and specific projects but we can take the full amounts. If we do not spend funds on the approved projects, it would have to be repaid. We can ask for funds to be transferred between projects. In this way it resembles a construction loan. The loan can be repaid more rapidly than 30 years. We can request loan increases for up to two years. The loan does not include sufficient funding for repairs that will be needed at 1190 Scenic or 1260 Scenic, because we will not have the required estimates until engineering is complete and the projects designed. If we get an estimate, we could request more funds. There are a number of questions to resolve, e.g. can the funds be placed in an interest bearing account. SBA may require, at any time at its discretion, audits at our expense. Any contracts over \$10,000 must include equal opportunity clause. There will be a charge for title search of FLMWC property offered as collateral. Copy of ID will be required for signers [President and Treasurer]. A deed of trust will need to be notarized at our expense. It was suggested that we set some money aside to pay for audits and reports that may be required. Cortez stated that she has studied all the documents but thinks it would be good to have our attorney review them.
- **Action Item:** Approval for attorney review of loan authorization and agreement, note and deed of trust: Dennis moves to have our attorney review the Loan Authorization and Agreement. West seconded. Gonda suggested amending that to include *all* the documents involved with the loan, as needed. Dennis then moved to have the attorney review the loan document and any other documents she thinks should be reviewed. West seconded. Motion passed.
- **Action Item:** Approval for title search related to SBA loan: If SBA accepts *title guarantee*, we can get a condition of title guarantee from American Title for \$500. Gonda moved the expense to American Title of \$500 conditional upon SBA accepting title guarantee; and if it doesn't, to look for an independent title searcher or have the attorney do it. Dennis seconded. Motion carried.
- **Action Item:** Approval of SBA required resolution authorizing signers, approving loan amount and accepting debt: West moved that the Board resolve that the officers having signing authority are authorized to sign SBA loan documents. Yatson seconded. Motion passed.
- **Action Item:** Approval of Strategic Planning Committee's Work Plan and Action Steps: Committee Chair indicated that before discussing the details of the Draft Workplan, he wanted to discuss the added agenda item of M. Mobley's letter which had been added to the Board packets. Opportunity was provided to review the letter. Gonda then provided a background summary as to how the committee was formed and its purpose. He explained the “SWOT” exercise and how it was done. Shareholders present who had participated were invited to comment. Both felt it had been a productive exercise. Gonda added that the Board will separately go through the SWOT exercise to compare. Gonda said that given the “daunting” fiscal needs, some fundamental changes may be needed. He addressed issues of equity and of looking at the potential effects of year-over-year assessment increases.

Yatson recapped findings about mutual water company water rates. He said we can structure rates however we choose; we just cannot sell water to customers who are outside of the "municipality." Gonda expressed concern as to whether any change to rate structure would trigger any additional regulations that we don't know about. Wade said that in talking about a tiered rate structure, he would want to know potential effects on overall revenue. Yatson pointed out that as we encourage conservation, if rates are based on consumption, there could be an impact on revenue. Gonda said modeling would be needed, based on current consumption, and build in a conservation factor. He suggested that there could be a fixed rate charge with an additional rate for consumption. Reviewing trends in the budget, even a 20% increase would not get us to where we need to be. Concern was expressed about pricing residents out if assessments are increased too much. There was concern that a flat fee could discourage conservation. Gonda indicated a need to start modeling data based on current consumption; the SPC would do this, and it would not be an additional duty for the General Manager.

Gonda mentioned that Angela Kelly has offered to facilitate the Board SWOT exercise.

The subject then shifted to the letter from M. Mobley, which expressed several concerns, among them concern that a tiered rate structure would require "growing our workforce in order to install and manage." The letter also expressed concern that changes could "turn Forest Lakes into a cost-prohibitive, exclusive community."

West asked if anything in the meeting had addressed the need for increased staff. Gonda said that there could be "massive upfront costs" if we had to convert the infrastructure to support tiered rates; but that analysis is needed to see what the costs and benefits would be long term, and what would be best and most equitable. We cannot know the impacts until we study this more.

Smith-Berdan noted how long our current meters have been in, and that possibly they could be replaced. She noted that different companies have different ways of structuring rates; and that although we cannot do some things suitable for large municipalities, there may be other ways applicable to our size. H. Burnett recalled previous efforts to introduce a rate structure. He mentioned the significant number of residents who live on County roads; and how past efforts ran into problems when residents on those 35-40 parcels then did not want to pay road assessments. Wade pointed out that this has always been the reasoning for flat rate, as the roads are essential for servicing the water function.

Wade noted that although the community would like to remain independent, if rates rise beyond a certain point, the community might want to join a larger water company.

West asked if there had been any look at the fees for road associations that exist in the Valley, and noted that to compare our *water* fees to other water companies that are not responsible for roads does not account for this expense.

With regard to the SPC's draft Action Plan: Gonda stated that it is a *tentative* work plan with a target completion date of 10/2020. The question for tonight is if the Board will approve the work plan, with any modifications needed; if the Board will participate in a SWOT plan; and if the Board will approve any potential legal expenses to be sure any changes would not trigger cumbersome regulation compliance.

The proposed survey was discussed, and the need for community opinion mentioned. Community input will be important. Burnett mentioned the difficulties of getting a valid sample with enough respondents. Smith-Berdan mentioned timing of sending the survey, and how responses could be influenced by assessment changes.

The action requested by the SPC would be Board approval of all 12 steps on the Draft workplan.

West questioned who will be executing the survey. Gonda said that has not been established but that committee participation will be key. West expressed an opinion that *no* additional tasks should be assigned to the General Manager, if we want to get the SBA loan and all the other priorities completed. Kelly suggested using Google Forms with small component of work for the GM. Gonda added that the Committee intention is not to task any FLMWC employee with any work involved on moving the plan forward.

Smith-Berdan said she agreed with the plan but was concerned about the proposed timeline, given the holidays. Wade noted that the proposed steps seem like a logical progression. Wade noted the amount of shareholder concern that was generated with the previous "Due Diligence" Committee.

Gonda said that with respect to the Action Steps, the timelines will have to be flexible; but what the Committee wants is the Board's "buy in" with the approach. There are 3 "asks": Approval of the work plan; approval of a special Board meeting for the SWOT exercise; and approval of legal review to be sure we are running any risks of triggering regulatory requirements that could be costly. Cortez noted that she is to attend a seminar tomorrow that could cast some light on this question; she will seek further information. Gonda requested that she bring back any information and the Committee will be responsible for further research.

Gonda said that the Committee will frame the legal questions.

**Action item:** Dir. Yatson moved to approve the Board holding a special meeting, open to the community, to do the SWOT exercise. West seconded. Motion passed.

**Action item:** Dir Wade moved, with respect to the SPC's Workplan, to accept the *steps* of the proposed plan. Item # 3 was discussed; Gonda explained this as an *associated* future Board action, because at some time in the future legal research/review will be needed, and at that time the request could be approved or denied. Wade then moved that the Board task the committee with framing the legal questions so that the Board will have an understanding of potential legal costs before approving any expense. Dir. Dennis seconded. Motion passed.

- **Discussion Item:** Review of draft 2020 Budget: Line items were reviewed. The amount SBA loan payment was noted. The payroll increase is not as great as shown, due to a calculation error in the 2019 budget. Cortez pointed out that to have a balanced budget, assessments would have to be increased by >30%. She noted that the budgeting seminar recommends budgeting for reserve accounts. Pete shared his analysis of expense and revenue, showing the need to look for ways to look at what is happening year over year. It was noted that in the past, budgeted amounts could not be spent because there was not enough staff to complete approved projects. Cortez mentioned information at the seminar she attended, that other water companies have tried to avoid raising assessments but the cost has been deferred maintenance. She noted that in 2008, RCD estimated that we need \$1,000,000 in various repairs. Dennis suggested letting shareholders spread payments over 11 months from the present 9. Credit card payment has been discussed, but that could hurt people in the long run. It was noted that last year was a "holiday year" [no assessment increase] and shareholders were notified to expect 2020 assessments to increase. It was noted that even a 10% increase does not get us where we need to be. The large items that have gone up are the SBA loan and source development; payroll looks greater because we were understaffed for part of the year. The Board is asked to consider all the options and be prepared to vote on the budget next month [and assessments].

**PUBLIC MEETING ADJOURNMENT TO CLOSED SESSION:** The open session meeting was adjourned to executive session at 9:50 p.m.

#### **PUBLIC MEETING RECONVENED FOR ACTION ITEM REPORTING:**

The public meeting was reconvened at 10:45 pm to report that the Board discussed and decided, based on his annual performance review, to approve a pay increase for one of the Water Operators.

**ADJOURNMENT:** The meeting was adjourned at 10:50 p.m.

Prior to approval director Gonda requested that the following clarifications of intent be made to the minutes: The "massive upfront costs" related to infrastructure work refers to potential costs to implement advanced metering infrastructure (AMI) and do not suggest that these are costs that will be incurred by FLMWC. With regard to the Strategic Planning Committee, the intention of the committee is to limit requests for staff support to those tasks typically provided in the course and scope of their work duties and included in their job descriptions, and evaluated in context of overall workload.