

**Sheep Creek Water Company**  
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## **NOTICE OF SPECIAL MEETING OF THE SHAREHOLDERS**

NOTICE IS HEREBY GIVEN, that the Special Meeting of the Shareholders of the Sheep Creek Water Company, a California Corporation, will be held at **Pinon Mesa Middle School**, located at **9298 Sheep Creek Road, Phelan, California**, on **August 17, 2019 at 10:00 a.m.**, local time, for the following purposes:

### **I. Open Meeting**

- a) Flag Salute & Invocation
- b) Introductions
  - 1) Board Members
  - 2) Past Board Members
  - 3) Sheep Creek Water Company Staff
  - 4) Proxy Committee

### **II. Old Business**

- a) Approval of Annual Meeting Minutes of May 11, 2019
- b) System Update
  - 1) Production
- c) CRWA Technical Assistance

### **III. Public Forum**

### **IV. New Business**

- a) Well #11 Loan Repayment- Revote Required
  - 1) Assessment- \$15 per Share for 5 Years
  - 2) \$8 Base Rate Increase per Month per Meter Service for 5 years
  - 3) \$5.00 Base Rate Increase plus Tier 3 for 5 years
- b) Updated Allotment Plan- Revote Required
- c) State Water Resources Control Board- Source Capacity Compliance- Voting Required
  - 1) Alternative 1- Remain Independent- Drill Additional Wells for Source Capacity Compliance
  - 2) Alternative 2- Consolidate Sheep Creek Water Company with Phelan Pinon Hills Community Services District

### **V. Procedures For Voting**

### **VI. Adjournment**

**OVER →**

*Dear Shareholders,*

*If you do not you plan to attend the  
Special Meeting of the Shareholders,  
Please sign, and date the enclosed proxy form.  
Proxy may be signed to anyone you wish to vote your shares.  
A return envelope has been provided for your  
Convenience.*

*Remember,  
If you attend the meeting on August 17, 2019,  
You must be signed in before 10:00 A.M.  
**Or your vote will not be counted!***

*We hope to see you there!*

*You can also send the Proxy by  
E-mail: [sheepcreek@verizon.net](mailto:sheepcreek@verizon.net) or  
Fax: (760) 868-2174*

**SHEEP CREEK WATER COMPANY  
ANNUAL STOCKHOLDERS MEETING  
MINUTES OF  
MAY 11, 2019**

*Welcome All Shareholders & Guests, to the 2019 Annual Stockholders Meeting!*

**I. Open Meeting**

The Annual Stockholders Meeting of May 11, 2019 was held at Pinon Mesa Middle School, located at, 9298 Sheep Creek Road, Phelan, California. The Meeting was called to order at 10:00 A.M. by Board President, Andy Zody. Mr. Zody thanked everyone for coming and reminded everyone that the meeting was being recorded for accurate meeting minutes. A quorum was met and the Annual Meeting officially commenced.

Bob Howard led in the Pledge of Allegiance, and David Nilsen led the Invocation.

The current Board present were President Andy Zody, Vice President Bob Howard, Secretary Treasurer Kellie Williams, and Directors Luanne Uhl and David Nilsen.

Past Board members present were Harry Wright, Villy Jorgensen, Ken Anderson and James Watson. Mr. Zody thanked them for their valuable time served on the board of Sheep Creek Water Company. A moment of silence was called in memory of long time shareholders John Store and Clarence Carter. Both men were a great asset to the history of Sheep Creek Water Company.

The Staff of Sheep Creek Water Company were introduced along with this year's Proxy Committee which included Shareholders Bonnie Howard and Donna Drover. Staff present were General Manager Chris Cummings, Field Supervisor Michael Siaz, Water Quality Joseph Tapia, Water Tech Paul Pollard and Office Staff, Dorothy Zody and April Dryden Chaplin.

The Company Attorney, Ernie Riffenburgh was introduced. Thank you Ernie for the many years of service with this company.

**II. Financial Update**

- a) **2018 Financial Statement:** Mr. Zody shared an overview of the 2018 Financial Statement. Shareholder Maisy Parker moved to accept the 2018 Financial Statement as presented. Shareholder James Watson seconded the motion. Motion carried.

**III. Old Business**

- b) **2018 Annual Meeting Minutes:** James Watson moved to accept the 2018 Annual Meeting Minutes as presented. Allen Parker seconded the motion. Motion carried. Mr. Watson reminded everyone that Sheep Creek Water Company has been through a past moratorium and survived. He thanked the Board for volunteering their time for this company.
- c) **System Update:**
  - 1. **Production** – As of April 30, 2019 all static well levels are up an average of 10 feet compared to this time last year. The Tunnel is currently flowing at 119 gallons per minute. All sources producing 1,286 gallons per minute, including the new Well 11. Production at the Well Site compared to three years ago is down 1,685 gallons per minute. Water *produced* in 2018 was 625 acre feet (or 203.6 million gallons) Water *sold* in 2018 was 532 acre feet (or 173.4 million gallons).
  - 2. **Tier Water Rate** – A Tiered Water Rate was implemented to incorporate the Well 11 water and additional wells within the Mojave Water Agency. Tier 3 is the Overage Rate which has charges included for assessments and upgrades.
- d) **CRWA Technical Assistance** – In 2016, Sheep Creek Water Company requested Technical Assistance from CRWA to help acquire Grant Funding for system

improvement and adjustments. The CRWA worked with Sheep Creek staff to complete an engineering report to acquire grant funding for new wells and upgrades to the system.. (This report can be viewed at <https://www.sheepcreekwater.com/engineering>

- e) **Well #11 Update** - Well 11 is online. It is pumping 250 gallons per minute, but Southern California Edison is not yet connected.

## II. New Business

### a) **Well #11 Loan Repayment – Options**

1. *Assessment - \$15 per share per year for 5 years*
2. *8\$ Base Rate increase per month per meter service for 5 years*
3. *\$5.00 Base Rate Increase plus Tier 3 funds per month per meter service for 5 years*

Sheep Creek borrowed the remaining funds to complete Well #11 and the Board of Directors is presenting the option to repay the loan.

## **SHAREHOLDERS DISCUSSION**

**Shareholder**, Jim Watson stated that Sheep Creek Water Company is a non-profit business. The Board of Directors are volunteers. They volunteer their own time and do not get paid to be on the board. There was another moratorium in 1989 set by the State. It's going to take some time, but eventually the water will get to us. People complain about Sheep Creek Water Company, but what they don't understand is that the other water company does not care about you. They will add costs onto your tax bill, in order to pay for things. Mr. Watson commended the Board for all their hard work.

**Shareholder**, Lisa Halas shared her concern regarding the charge on the meter instead of the shares. Mr. Nilsen explained that anytime the company needs to pay for an improvement, the Board of Directors bring it to the Shareholders. When necessary, the Shareholders are asked how they want to pay for an improvement. The choices have either been an Assessment, Base Rate or Water Rate increase. The Shareholders vote on how they want to pay. Mrs. Halas shared that she was not aware of voting on such things, or the results of voting. Mrs. Halas felt that she was not informed. Mrs. Halas did not think that it was fair for the shares to vote to increase the rates on the meter user. Mrs. Halas also thought it was unfair for the larger Shareholders to vote to increase the base rates so that the smaller Shareholders have to foot the bill.

**Shareholder**, Karen Hardy purchased property and was told there was no problem getting water service to her property. However, sometime later, when Mrs. Hardy was ready to have water service brought to her property, she was told that the State had placed a moratorium on Sheep Creek Water at the end of August 2018, because of low water levels. Mrs. Hardy asked to review the 2017 Financial Statement and wondered why the company is operating at a loss. She encouraged landowners to vote for the consolidation of Sheep Creek Water and Phelan Pinon Hills Community Service District. She asked if the company had a Master Plan and why would Mr. Nilsen loan the water company money.

With regard to Mrs. Hardy's questions and concerns, Mr. Nilsen answered, yes, the company has a Master Plan, and the Company has also commissioned California Rural Water Association to assist in getting some grant funding. We have completed a lot, but much more needs to be done. If you want to view the Master Plan, you can view it on our website. The company is actively working on upgrading this system. Mr. Nilsen also assured everyone that he, himself, has not ever loaned money to the water company, although a certain family member has. Mr. Nilsen stated that it was not just one person that has loaned money to the company, over the years, there have been several. They have genuinely wanted to help this company out, and have.

**Shareholder**, Harry Wright shared that he once was on the Board, and that nothing was ever being done in secret. He stated that people would know more about what is going on if they were to go to the meetings.

**Shareholder**, Abram Tavera shared his concerns about his high water bills for the Sierra View Mobile Home Estates. It was explained that because of the changes in the allotment, it would affect the mobile home park account.

**Shareholder**, Mark Chase shared his concerns about how his yard is brown but the farmers can still grow. Mr. Nilsen thanked Mr. Chase for bringing up a good point. There are those people who are still using more than their shares are allotted and that is why Tier 3 has been introduced.

**Guest**, Robert Righetti (District Engineer of Water & Land Use) *"What you have in this water company, should never be let go. You should hang on to this tightly, because it's the most control you will ever have towards your future."* Mr. Righetti shared that merging with the Community Service District, means more power for them. Being a Shareholder in Sheep Creek Water Company means you have a say. You will lose your voice if you consolidate. In Mr. Righetti's words, "water is gold". He urged all Shareholders to hold on to their water rights.

**Shareholder**, Robert Tolliver also concerned about the farmers in the area using the water, while he has to let his yard go.

**Shareholder**, Joseph Wolf shared that when he saw how the water situation was going, he got rid of his trees in order to conserve. Mr. Wolf felt the charges should be on the meter not the shares.

**Shareholder**, Skip Ewing shared that the Board has done a great job. As a business owner, he wondered if option 2 & 3 were to go into effect, and the wells were drilled, how long the moratorium will last. Mr. Nilsen said that the actual drilling of one well can take up to about two years.

**Shareholder**, Ken Barrale shared that he loves his fruit orchard. He does not sell his fruit, it is used for his own consumption. He is concerned why we could not buy water from the CSD. Sheep Creek has borrowed water from the Community Service District in the past and they, in turn have borrowed water from Sheep Creek. Mr. Nilsen confirmed that a year ago, both water companies worked together and came up with an emergency agreement.

Later in the meeting, Mr. Barrale stated that at this time, Sheep Creek Water users are able to buy their allotted water at cost. If Sheep Creek Water was to merge or consolidate with PPHCSD, then the water would no longer be sold at cost.

**Shareholder**, Ken Anderson shared his concerned about Mr. Nilsen coming across as representing all of the Board. If the Board is in agreement with how Mr. Nilsen feels, then it should be presented in that way, regarding a mailing Mr. Nilsen sent to the Shareholders. Mr. Nilsen clarified that the whole Board was involved and in agreement in all the options that were in the letter that was sent out. He sent out the letter because there was things being said about himself and the water company that are false. It was a personal letter, sent to the Shareholders encouraging the customers to sign his proxy only if they agreed with him.

**Shareholder**, Diane Hayball stated that several months ago, she had requested customer addresses, but was told that Sheep Creek was not able to give out customer information due to privacy laws. She asked how Mr. Nilsen was able to obtain these addresses. The Company's attorney, Ernest Riffenburgh stated that "under certain circumstances", it is appropriate for addresses of other Shareholders to be obtained. Mr. Riffenburgh was not prepared for this issue, but promised to research it more thoroughly. Mr. Zody stated that it has been researched in the past and was told that if you own at least 5% of the stock in the company, you are entitled to certain things within the company.

**Shareholder**, Joe Henry, has been with Sheep Creek Water since 1978. He asked what the items to be voted on today were. Mr. Zody answered that today the Shareholders were voting on how to pay off Well 11, and to vote on a Board of Directors for 2019. Mr. Henry stated that he would like to see the company stay private. Not having made a decision yet, Mr. Henry asked for clarification on the three options on how to pay off Well 11. #1) a \$15.00 Assessment of every share per year for five years, #2) an \$8.00 increase to the Monthly Base Rate for 5 years or #3) a \$5.00 increase on the Monthly Base Rate and Tier 3 revenue for five years.

**Shareholder**, Kathy Everhart suggested a "split cost", something that she had shared on social media. She stated that Well 11 & 12 are Capital Assets and should be paid by assessments. Mrs. Everhart also stated that if Sheep Creek Water consolidated with the Phelan Pinon Hills Community Service, she would

not be concerned about being compensated for her shares. Mrs. Everhart stated "I do not feel the shares need to be bought out".

**Shareholder**, Randy Weber shared his concern regarding Sheep Creek Water Shareholders being taken advantage of with this merger. More information will be available at a Special Meeting in August 2019.

**b) State Water Resources Control Board – Source Capacity Violation Update**

**1. Feasibility Study Alternative Plans - INFORMATION ONLY!**

**a) Alternative 1 – Drill Additional Wells (Assessments Required)**

**b) Alternative 2 – Consolidate Sheep Creek Water Company with PPHCSD**

Mr. Zody explained that once we have all the information, then we can vote on whether or not to drill additional wells and keep Sheep Creek as a private water company or consolidate with PPHCSD. The State and also the CSD have both had to cancel meetings with Sheep Creek Water. Hopefully, Sheep Creek will have more information by August 2019, when we have a Special Stockholders Meeting. At this time Diane Hayball spoke again. When she attended the special engineering committee meeting, the CSD asked for an additional study of the system. She asked if we had found a company to do the study and what the cost would be. Mr. Nilsen stated that CRWA did an engineering report and at no cost to this company. If an additional study is required later, then it should be done by an independent, unbiased appraiser that is qualified to do an appraisal of this company. Mr. Zody reported that the State of California has extended the deadline until August 31, 2019. We will have a Special Meeting of the Shareholders sometime before then.

**c) Updated Allotment Plan** Mr. Zody stated that this plan will fluctuate with water production. Luanne Uhl explained that this item is to give the Sheep Creek Water staff authority to make changes to the allotment, as necessary, throughout the year. The process to lower the allotment can take substantial time by the time the Board approves and notification is sent to the Shareholders. This will allow the process to be quicker when it is needed. The allotment has always been approved by the Board after staff recommendations not approved by the Shareholders.

**d) Well #12 Approval and Payment Options - INFORMATION ONLY!**

**1. Assessment - \$30.00 per share per year for 5 years**

**2. \$20.00 Base Rate Increase per Month per Meter Service for 4 years**

**3. Increase Water Rates an additional \$1.85 per hcf for 4 years**

**V. Procedures for Voting** – Mr. Riffenburgh explained the procedures for the voting process.

**VI. Election of Directors** – Jim Watson moved to keep the same Board for 2019-2020. Mrs. Wolf seconded the motion. Motion carried. Michael Lewis nominated Karen Hardy for the Board of Directors. Maisy Parker moved to close the nominations for Board of Directors. Mary Watson seconded the motion. Motion carried.

**Election Results**

**2019 – 2020 Board of Directors ~ A Total of Five (5)**

<b>*Andy Zody</b>	<b>4882</b>	Elected
<b>*Bob Howard</b>	<b>4781</b>	Elected
<b>*David Nilsen</b>	<b>4197</b>	Elected
<b>*Luanne Uhl</b>	<b>3893</b>	Elected
<b>*Kellie Williams</b>	<b>4743</b>	Elected
<b>Karen Hardy</b>	<b>1130</b>	

**Agenda Item 4a Well #11 Loan Re-payment**

- |                                 |      |
|---------------------------------|------|
| 1) Assessment                   | 673  |
| 2) \$8.00 Base Rate             | 0    |
| 3) \$5.00 Base Rate plus Tier 3 | 4161 |

**Agenda Item 4c Updated Allotment Plan**

Yes	3937
No	883

**VII. Adjournment** Andy Zody moved to adjourn the meeting. Luanne Uhl seconded the motion. Motion carried. The 2019 Annual Stockholders Meeting of May 11, 2019 was adjourned at 3:20pm. Thank you *Snowline School District* for the use of the facility.

**Respectfully Submitted,**

*Kellie Williams*  
*Secretary/Treasurer*  
*Sheep Creek Water Company*  
*Board of Directors*

**2019**

**RELATIVE INFORMATION**

As of August 8, 2019

		8/8/2019	8/31/2018	8/31/2017	8/31/2016	#####	
PRODUCTION		2019	2018	2017	2016	2013	
TUNNEL	is producing	123	121	140	162	329	GPM
WELL # 2A	is pumping	176	30	50	38	1186	GPM
WELL # 3A	is pumping	205	25	143	31	694	GPM
WELL # 4A	is pumping	179	60	144	52	887	GPM
WELL # 5	is pumping	223	119	257	163	311	GPM
WELL # 8	is pumping	195	161	278	194	478	GPM
WELL # 11	is pumping	251					GPM
<b>TOTAL</b>		<b>1352</b>	<b>516</b>	<b>1012</b>	<b>640</b>	<b>3885</b>	<b>GPM</b>

**STORAGE**

TANK'S # 2 & 4	428,000 x 2	856,000	Gallons
TANK # 3		210,000	Gallons
TANK # 5		141,000	Gallons
TANK # 6		912,000	Gallons
TANK # 7		1,000,000	Gallons
TANK # 8		3,000,000	Gallons
<b>TOTAL</b>		<b>6,119,000</b>	<b>Gallons</b>

**ALL AVERAGES USAGES ARE FOR 2018**

Total Production for 2018	624 Acre Feet (62 AF less than previous year)
Average through summer month's	62 Acre Feet (6 month's)
Average through winter month's	42.5 Acre Feet (6 month's)
Average GPM usage for summer month's	461 GPM
Average GPM usage for winter month's	316 GPM

PPHCSD Supplied 16 Acre Feet of water to SCWC. SCWC currently owes PPHCSD 10 Acre Feet of Water  
 1 acre foot of water = 325,900 gallons of water

**AUGUST WELL LEVEL COMPARISONS- Levels up or down from:**

Well #	1 Year Ago	2018	2 Year Ago	2017	6 Years Ago	2013
2A	UP 28 FT		UP 4 FT		DN 18 FT	
3A	UP 30 FT		DN 12 FT		DN 56 FT	
4A	UP 28 FT		UP 7 FT		DN 35 FT	
5	UP 28 FT		UP 5 FT		DN 49 FT	
8	UP 44 FT		UP 7 FT		DN 33 FT	

Sheep Creek Water has an average hardness of **31 grains** between all of it's sources

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## **WATER ALLOCATION- Tier 1 Allotment Rate \$0.50 per hcf**

The water allocation plan will assist the Sheep Creek Water Company Board and Staff as to how and when the water allotment will be adjusted. This plan can give Shareholders and customers a better idea as to why the allotment will be adjusted. The Board of Directors plan to help the Shareholders as best as possible with the available water to the company. The water allocation plan is based on the production from the Wrightwood Well Field. The Wrightwood Well Field allotment is for the Tier 1 water rate. Sheep Creek's water supply is based solely on recharge in the Swarthout Canyon in Wrightwood. Sheep Creek cannot base the water allotment on how wet the winters are due to the time it takes the water to reach the ground water table. The following are the steps taken to determine what stage of the allotment schedule the company is in.

1. The water allotment must be determined by the current production levels and the groundwater levels. Allotments below are estimates based on safe production.
2. As groundwater levels and production increase or decrease is how the water allotment is to be determined.
3. Due to the time to approve reductions and notify water users, staff will need to monitor groundwater and production levels closely to determine the trend for the several months.
4. The allotment schedule is determined by the number of shares (8,000) with the available safe production yield up to the company's 3,000 acre foot water right.
5. The allotment schedule will be set in stages to allow notification to shareholders and water users.
6. Shareholders will be notified of the current allotment on the current water bill.
7. Current water allotments will be posted at [www.sheepcreekwater.com](http://www.sheepcreekwater.com)
8. A tiered water allocation will be used during emergency or drought conditions.
9. Allotments will not be increased until it is determined that groundwater levels and production has stabilized.
10. Water rates subject to change.

## **ALLOTMENT SCHEDULE**

### **Stage 1- 1,350 CF per share**

- Normal operating conditions, all sources are operating under normal production and water levels. Production yield in excess of 3,000 gpm.

### **Stage 2- 1,000 CF per share**

- Static water levels are showing signs of decline along with a decline in the production. Production yield dropping to 2,600 gpm.

### **Stage 3- 800 CF per share**

- Static water levels are showing higher signs of decline along with significant decline in the production. Production yield dropping below 1,500 gpm.

### **Stage 4- 750 CF per share**

- Static water levels are showing higher signs of decline along with significant decline in the production. Production yield dropping below 1,000 gpm.

## **TIERED ALLOTMENT SCHEDULE**

Water allotments will decrease based on well production in the Wrightwood Well Field.

1.	2,000 gpm	1 <sup>st</sup> Share = 1,000 cubic feet / Remaining Shares = 950 cubic feet
2.	1,900 gpm	1 <sup>st</sup> Share = 1,000 cubic feet / Remaining Shares = 900 cubic feet
3.	1,800 gpm	1 <sup>st</sup> Share = 1,000 cubic feet / Remaining Shares = 850 cubic feet
4.	1,700 gpm	1 <sup>st</sup> Share = 1,000 cubic feet / Remaining Shares = 800 cubic feet
5.	1,500 gpm	1 <sup>st</sup> Share = 1,000 cubic feet / Remaining Shares = 750 cubic feet
6.	1,300 gpm	1 <sup>st</sup> Share = 1,000 cubic feet / Remaining Shares = 650 cubic feet
7.	1,100 gpm	1 <sup>st</sup> Share = 1,000 cubic feet / Remaining Shares = 500 cubic feet
8.	900 gpm	1 <sup>st</sup> Share = 1,000 cubic feet / Remaining Shares = 350 cubic feet
9.	750 gpm	1 <sup>st</sup> Share = 750 cubic feet / Remaining Shares = 350 cubic feet
10.	650 gpm	1 <sup>st</sup> Share = 750 cubic feet / Remaining Shares = 250 cubic feet
11.	500 gpm	1 <sup>st</sup> Share = 750 cubic feet / Remaining Shares = 150 cubic feet
12.	450 gpm	1 <sup>st</sup> Share = 500 cubic feet / Remaining Shares = 100 cubic feet

The various stages in the allotment schedule are recommended guidelines for the Board and Staff to follow during dry years and during times of declining water levels. The allotment stages may be adjusted as necessary with the given production and water level information. Dry years with steep declines in water levels may require additional cuts at a quicker pace. Any reduction in the allotment will be notified on the current water bill. Changes to the Allotment Schedule are subject to change.

## **WATER ALLOCATION- Tier 2 Allotment Rate -\$3.46 per hcf** **Wells within the Mojave Water Agency - Alto or Oeste Basin**

1.	250 gpm	All Shares = 150 cubic feet
2.	500 gpm	All Shares = 300 cubic feet
3.	750 gpm	All Shares = 450 cubic feet
4.	1,000 gpm	All Shares = 600 cubic feet

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SHEEP CREEK WATER COMPANY SPECIAL SHAREHOLDERS MEETING- AUGUST 17, 2019

New Business Agenda items to be presented to the Shareholders of the Sheep Creek Water Company for consideration and vote.

### **Agenda item IV a**

**Well #11 Loan Repayment Revote:** A total loan amount of \$428,000 is outstanding for the completion of Well #11. Annual principal payments of \$85,000 plus monthly interest payments. The cost to install Well #11 with offsite infrastructure upgrades was \$1,113,796. The Board of Directors is asking the Shareholders how they prefer to repay the loan.

The following repayment options for the Well #11 loan repayment:

1. Assessment- \$15 per share, per year for 5 years.
2. \$8.00 base rate increase per month per meter service for 5 years.
3. \$5.00 base rate increase per month per meter service plus Tier 3 Overage Charges.

#### **Total Estimated Cost per Option:**

- 1.) **Assessment- \$75.00 per Share** (\$15 per share per year for 5 years)
- 2.) **\$8.00 Base Rate Increase- \$480.00 per Meter Service** (\$8.00 per meter per month for 5 years)
- 3.) **\$5.00 Base Rate Increase- \$300.00 per Meter Service plus Tier 3 Overage** (\$5.00 per meter per month for 5 years plus Tier 3 Overage Charges) Tier 3 Overage is not charged if customer remains within their allotment.

### **Agenda Item IV b**

**Updated Allotment Plan Revote:** The Board of Directors has proposed an updated Allotment Plan to adjust allotments as needed with current safe production. Allotments cannot be increased without ground water levels increasing, in addition to well production increasing. Short term increases do not always allow for increase in allotment. Allotments will be posted on the Sheep Creek Water Company website. The Board of Directors will approve parameters for allotment adjustments when needed. The updated allotment Plan can be found at [https://sheepcreekwater.com/documents/816/Allotment\\_Schedule\\_2019.pdf](https://sheepcreekwater.com/documents/816/Allotment_Schedule_2019.pdf)

### **Agenda Item IV c**

**State Water Resources Control Board- Source Capacity Violation:** August 30, 2018, Compliance Order NO. 05-13-18R-002 was issued by the State Water Resources Control Board (SWRCB) Drinking Water Division. The SWRCB placed a service connection and building moratorium on Sheep Creek Water Company (SCWC). SCWC cannot place any new service connections or cannot issue any "Will Serve Letters" for any building permits. Due to the drought in California, SCWC's well levels and production have been on a steady decline and beginning in June of 2016 well production began to drop significantly. Again in 2018 well production dropped causing the SWRCB to issue a Source Capacity Violation due to SCWC unable to meet the required 10 Year Maximum Day Demand (MDD). In order for SCWC to meet the required 10 year MDD,

SCWC needs to have a pumping capacity of 1,453 gallons per minute or 2.09 million gallons a day (MGD). As of July 31, 2018, the total pumping capacity was 502 gallons per minute, or .72 MGD.

The SWRCB required a Feasibility Study be completed by SCWC. SCWC contracted with Infrastructure Engineering Corporation (IEC) to complete the required Feasibility Study. The report was required to have options to bring SCWC into compliance with the regulation to meet the MDD. One option required to be considered is consolidation with Phelan Pinon Hills Community Services District (PPHCSD). Based on production records for July 2018, SCWC could produce .72 MGD and with the addition of Well #11 (361,440 gallons per day), SCWC's total production is 1.08 MGD. The engineering report developed from IEC reduced the MDD from 2.09 MGD to 1.78 MGD leaving a deficit of .70 MGD plus a required stand-by well. SCWC will need to drill additional wells to come into compliance with the MDD regulation.

The IEC Feasibility Study can be found at:

[https://sheepcreekwater.com/documents/816/Final\\_SCWC\\_Feasibility\\_Report\\_2019-01-14\\_Part\\_1.pdf](https://sheepcreekwater.com/documents/816/Final_SCWC_Feasibility_Report_2019-01-14_Part_1.pdf)  
[https://sheepcreekwater.com/documents/816/Final\\_SCWC\\_Feasibility\\_Report\\_2019-01-14\\_Part\\_2.pdf](https://sheepcreekwater.com/documents/816/Final_SCWC_Feasibility_Report_2019-01-14_Part_2.pdf)

### **I. Well Drilling for Source Compliance:**

Based on the information provided about the newly constructed Well #11, SCWC will need to drill additional wells to increase available production to meet the required MDD. The engineering report developed from IEC reduced the MDD from 2.09 MGD to 1.78 MGD, which would require two to four wells be drilled. If production on additional wells is higher than the estimated 250 gpm, this may reduce the number of wells necessary to achieve the required MDD. Several meter services for the Snowline School District have been transferred to PPHCSD and if additional services are transferred, SCWC's MDD may be further reduced. Engineers estimate that the cost to drill and equip wells along with associated pipework to connect to the existing water system is **\$5,806,000**.

At this time SCWC will be borrowing funds as needed to complete the well project. Due to the length of time that the project will take, current funds that are being collected will be used towards the project to further reduce the loan needed, reducing interest and cost to Shareholders. SCWC is currently working with an Infrastructure Banking Lender to borrow the needed funds. SCWC is estimating the cost to complete each well at \$900,000, which is based on the cost to complete Well 11. SCWC is estimating to install three wells to come into compliance with the SWRCB but until the wells are drilled have to plan for four wells. SCWC's estimated cost to complete up to four wells is **\$3,600,000**. Option for loan payments will be presented to the Shareholders during the Annual Shareholders Meeting in May 2020. SCWC will begin the environmental process with the funds currently available.

Below are example payment estimates that will be presented to the Shareholders for approval.

- **Full loan amount of \$3,600,000 at an interest rate of 4.5% with 10 year repayment:**
  - **Assessment on Shares- \$30 per share twice a year for 10 years (\$600 per share).**
  - **Base Rate Increase- \$31.50 per month per meter for 10 years (\$3,782 per meter service).**
  - **Water Rate Increase- \$1.95 per HCF (\$2,808 based on 12 hcf per month).**
  - **Split Assessment & Base Rate Option - Assessment of \$30 per share once a year for ten years and Base Rate Increase of \$15.75 per month for ten years.**
  
- **Loan amount of \$2,500,000 at an interest rate of 4.5% with a 10 year repayment:**
  - **Assessment on Shares- \$30 per share twice a year for 7 years (\$420 per share).**
  - **Base Rate Increase- \$22 per month per meter for 10 years (\$2,655 per meter service).**
  - **Water Rate Increase- \$1.40 per HCF (\$2,016 based on 12 hcf per month).**

- **Split Assessment & Base Rate Option- Assessment of \$30 per share once a year for ten years and Base Rate Increase of \$11 per month for ten years.**

## **II. Evaluation of Consolidation of Sheep Creek Water Company with Phelan Pinon Hills Community Service District:**

The SWRCB required SCWC to evaluate consolidation of Sheep Creek Water Company with Phelan Pinon Hills Community Service District as an option to come into compliance. The feasibility study completed by IEC evaluated this option as an alternative to drilling additional wells and remaining private. The IEC report can be found on the SCWC website.

Engineers estimated cost for consolidation with PPHCSD was **\$3,374,700**. Grant funding of **\$5,000,000** was available for consolidation through the State of California SWRCB. The remaining funds from the grant would have been used towards additional upgrades or repairs to the Sheep Creek Water System. Additional grant funding of \$5,000,000 was potentially available for additional replacement and upgrades. All existing debt owed by SCWC would have needed to be paid by the SCWC Shareholders. Current debt owed by SCWC is \$600,000.

The SCWC Board of Directors submitted a proposed Consolidation Plan along with an Appraisal Report of the Sheep Creek Water Company to the PPHCSD for its review and consideration. The Board of Directors for PPHCSD met on July 17, 2019 and rejected the proposed Consolidation Plan presented by SCWC.

The proposed Consolidation Plan can be found at:

[https://sheepcreekwater.com/documents/816/Sheep\\_Creek\\_Consolidation\\_Plan\\_6-18-19.pdf](https://sheepcreekwater.com/documents/816/Sheep_Creek_Consolidation_Plan_6-18-19.pdf)

## **III. Action Required:**

Based on PPHCSD rejection of the proposed Consolidation Plan, there will be no vote on the merger issue, and SCWC must now proceed with well drilling, in order to meet SWRCB source compliance requirements. However, SCWC By-Laws §7.01 provides that “Expenditures for capital improvements exceeding \$10,000.00 shall require approval from the Shareholders”. So, a Shareholder Vote will be taken to authorize such well drilling. Failure to authorize such well drilling will cause SCWC to be in violation of SWRCB requirements.