

SHEEP CREEK WATER COMPANY
Regular Board of Directors Meeting
January 23, 2020 ~ 6:30 PM
Snowline School District ~ Board Room
4200 Sunnyslope Road, Phelan, CA 92371

The Regular Board of Directors Meeting of January 23, 2020, was called to order by President Andy Zody, at 6:34 PM. General Manager Chris Cummings led in the Pledge of Allegiance and David Nilsen led in the invocation. Mr. Zody reminded those present that the meeting was being recorded to insure accuracy of meeting minutes.

Directors Present: Director's present at tonight's meeting were, President Andy Zody, Vice President Bob Howard, Secretary/Treasurer Kellie Williams, along with Director's Luanne Uhl and David Nilsen.

Guests Present: Guests present at tonight meeting were, Karen Hardy, Kathy & Paul Everhart, Diane Hayball, George Cardenas, Mike & Judy O'Brian, Michael Palecki, Deborah & Yasha Philips, Richard Trower, Don Fish Jr. and Charlie Johnson.

Staff Present: Manager Chris Cummings was present, along with Administrative Secretary Dorothy Zody.

Consent Motions:

- a.) Minutes- December 5, 2019*
- b.) Bills- December 5, 2019 – January 23, 2020*
- c.) Managers Report*

Bob Howard moved to accept the Consent Motions as presented. Luanne Uhl seconded the motion. Motion carried.

Open Forum: Mr. Zody explained that under this item any member of the Board or Public may address the Board on items not on the Agenda. However, under Ab 240 the Board is prohibited on taking any action on an item not appearing on the agenda.

Bob Howard stated that he would like to send something to Arthine from Water Funder as a Thank You.

Mr. Trower stated that he heard conflicting reports about the line of credit and asked if the Board could clarify. Mr. Zody explained that we are putting some of the properties up as collateral for the loan. Mr. Zody clarified that a separate loan will pay off existing Shareholder loans, which will be at a lower interest rate and the \$5 base rate increase will still go towards paying that off the loan. Mr. Trower also said that he thought Shareholders paid assessments and monthly fees to pay for daily operations of SCWC. Mr. Zody explained that assessments are designed to help pay for new wells and whatever else is needed to provide water to the Shareholders as where the base rate and water rate is used for fixed costs and daily operations. Mr. Trower said he thought Tier 2 & 3 were to go towards paying off the loan but was told only a portion of it goes towards the loan and the other portion goes to well maintenance. Mr. Nilsen explained that Tier 2 isn't a penalty that that rate is what it costs to use the water from Well 11 because we have to pay Mojave Water Agency. A portion of Tier 3 goes toward the Shareholder loans. Mr. Cummings explained that \$1.13 per HCF of Tier 3 is an assessment fee which is currently being used for the Shareholder loans, \$2.00 per HCF goes to capital improvements, \$0.25 is for well maintenance, \$1.46 per HCF is for Mojave Water Agency fees and the remaining for operation costs.

Karen Hardy asked if the CEQA Documents have been submitted for the next 2 wells and if the land that the wells are going to be put on have been purchased and are they included in the CEQA Document. Mr. Zody explained that we are in the middle of CEQA for 3 possible wells and began about September/October. He also stated the properties have been identified and 2 properties will have a purchase contract pending a viable well. Mr. Cummings added that once the documents have been filled they will be posted on the company website.

Kathy Everhart asked what steps SCWC can take to increase the allotments in the near future. Mr. Zody replied that the By-Laws state we have to sell the water at cost and that right now we have to determine the average of the water we can supply. Chris added that the water for the allotment comes from the 5 wells and the Tunnel at the Wrightwood Well Site and that right now with the fluctuation it is not consistent enough to be able to raise the allotment. Kathy also asked if the new wells will be included

in Tier 2. Chris said that all the new wells will be Tier 2 because they will be located within the Mojave Water Agency. Kathy asked Mr. Nilsen if they had the meeting with the State Water Board yet. Mr. Nilsen replied that yes we have.

Old Business

a.) System Update ~ Chris reported that Static water levels have had some slight increase over the last few months. Compared to 1 year ago water levels are an average of 18-28 feet higher. Well 5 is running an average of 6 days a week, 12 hours a day with usage averaging .35 MGD. Current pumping capacity is 1,383 GPM which does not include Well 3A which is still off-line and will be between 200-250 GPM. The Tunnel is currently averaging 123 GPM and is staying steady at that rate. For the 2019 Year, Sheep Creek has produced 542 acre feet of water which is a reduction in use of 47% from 2013. Our average water flow for consumption throughout the year was 290 GPM with August being our max month with an average flow of 412 GPM. Chris also reported that some of the work that was completed for 2019 included:

- 61 meter upgrades,
- 16 service line replacements,
- 21 main and service line leaks,
- 5 CLA-VAL stations rebuilt and upgraded to stainless steel pilot systems,
- 1 new CLA-VAL station was installed and a check valve was added to increase fire flow in the lower portion of the system.

The Tunnel Flow meter and drain line in the Canyon were upgraded.

Well 3A was rehabbed and is almost complete. The casing was scrubbed and cleaned new column pipe was installed, the motor was rebuilt and a new pump was installed. All the pipework and casings were raised 18" to bring it up to current standards.

The total work when completed, which was paid by operations and well maintenance, totaled \$191,000.

b.) SWRCB Compliance Order ~ Mr. Cummings reported that the SWRCB sent a response to Sheep Creek's Corrective Action Plan that was submitted on August 28, 2019 after the Special Shareholders Meeting. Sheep Creek's letter and Action Plan stated that the Shareholders approved to drill wells for system compliance with an estimated timeline to compliance of June 2023. The SWRCB's policy is to encourage consolidation but at this time cannot and will not force consolidation. The SWRCB approved Sheep Creek's Corrective Action Plan as submitted in August 2019. The timeline that was submitted will be adjusted based on the amount of time the State Water Board takes to issue a new compliance order. Chris also reported that we met with the SWRCB at their office to let them know Sheep Creek's progress and the plans for moving forward. SWRCB did have concerns of financing for the project which they were notified that a loan for the project was in the process of being completed. Payment options were discussed and will be taken to the Shareholders for approval. The issue of building permits was also discussed with the Board and they stated they had no issue with the county issuing building permits that do not increase water consumption, such as remodels and garages. Sheep Creek requested a reduction in the MDD to 1.78 mgd, the SWRCB approved a reduction from 2.09 mgd to 1.97 mgd. At this time a new compliance order has not been issued.

c.) Source Capacity Project Update ~ Chris reported that the initial study for 3 well locations has been completed. Tom Dodson our consultant completing the CEQA documents has been in contact with San Bernardino County Land Use Services and they are currently reviewing the initial study. We are in the process of completing plot plans and the application for County. Current locations are being looked at for a 4th well. Mr. Cummings also reported the lender CoBank has approved a line of credit of up to \$4 million. The interest rates will be between 3.55% and 4.25% based on the repayment terms. The funds will be borrowed as needed. The outstanding Shareholder loans of \$405,220 will be refinanced with CoBank in a separate loan from the \$4 million and this interest rate will be 3.5% with the repayment term to be 48 months. The repayment options being looked at will be presented to the Shareholders for

approval at the Annual Shareholders Meeting in May. These options are based on the full \$4 million. The options currently being looked at are:

Increase to the base rate of \$21 per meter service

Assessment of \$40 per share per year or \$20 twice a year

Water rate increase of \$1.50 per HCF for all Tiers on top of existing rates

Mr. Nilsen suggested adding another option of splitting the options. Mr. Zody agreed that it would be a good option to consider as well.

Mr. Palecki asked if we purchase the land before we test drill or is there an option? Chris explained that right now we have an option on 2 properties to test the land and drill and decide if there's substantial water that we will use then we will purchase the property. Kathy Everhart asked that with the States recommendation to consolidate is the Board at all open to looking at that option again? Mr. Nilsen explained that we gave the CSD the information they requested but there was never any more Engineering Meetings after that. He further explained that the CSD has never responded or given us anything in writing but he is willing to talk to them. Kathy then asked if they would be open to the SWRCB being a mediator, if they even do that, with consolidation between the two companies. Kellie Williams explained that we reached out to the CSD as best as we could but the vote is to drill more wells and we have to stay the course. Mr. Trower asked about the possibility of a catch basin in the Canyon. Mr. Zody explained that we looked into it once but it turned out to be cheaper to drill a new well.

New Business:

a). Annual Shareholders Meeting-May 16th, 2020

Bob Howard moved to accept the recommended date May 16, 2020, at Pinon Mesa Middle School at 10:00 a.m. Kellie Williams seconded the motion. Motion carried.

b). Source Capacity Project-Funding Approval

i. Resolution of the Board

Chris Cummings stated that SCWC was approved for funding for the Source Capacity Project of up to \$4 million. Included in the funding will be the refinance of the existing Shareholder loans. The Resolution of the Board needs to be approved to complete the funding documents. Included in the Resolution will be the authorized signers to sign all loan documents and for draws on the line of credit as needed for the project. Kellie Williams made the motion to accept the Resolution as presented. Dave Nilsen seconded the motion. Motion carried.

Scheduled Meetings:

b). February 20, 2020-Regular Board of Directors Meeting

c). March 12, 2020- Regular Board of Directors Meeting

d). April 16, 2020-Regular Board of Directors Meeting

Meetings have been scheduled with the School District through June 2020.

Closed Session: The Board moved into closed session at 7:58 p.m. for an Employee Evaluation.

Adjournment: President Andy Zody made the Motion to adjourn. Dave Nilsen seconded the Motion. Motion Carried. The Regular Board of Directors Meeting of January 23, 2020 adjourned at 7:58 p.m.

Respectfully Submitted,

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