

SAN ANTONIO WATER COMPANY
ADMINISTRATION and FINANCE COMMITTEE (AFC)
MINUTES
September 28, 2010

An open meeting of the Administration and Finance Committee (AFC) of the San Antonio Water Company (SAWCo) was called to order at 3:04 p.m. on the above date at the Company office located at 139 N. Euclid Ave., Upland, California. Committee Members present were Dr. Fred Gattas, Ken Willis, Tom Thomas, and Mark Hill. General Manager Charles Moorrees, Assistant Manager of Administration and Finance Teri Layton, Special Counsel Fred Fudacz, Paul Ridgeway, Karen Sked, Colin Sked, and Eric Hanson were also in attendance. Mr. Willis presided.

1. Recognitions and Presentations: None.
2. Additions / Deletions to the Agenda: None.
3. Public Comments: None.
4. Approval of Committee Meeting Minutes – Mr. Thomas moved and Mr. Hill seconded to approve the meeting minutes of July 27, 2010. Motion carried.
5. Administrative and Financial Issues:
Social Media – Mr. Moorrees reported at the previous AFC Meeting there was a discussion of using social media, Facebook, for the water company to communicate issues and information to its shareholders. Because Eric Hanson, SAWCo's information technology consultant, has made presentations on this topic the committee felt it beneficial to have him provide the presentation at today's meeting.

Mr. Hanson's presentation is an adaptation of a previous one he gave. He stated that the first thing to do is to find out what the goal is and have a plan. Is it for client or customer communication, selling or marketing a product, etc.? What real content can you deliver and how? Avoid irrelevance by not posting a lot of information all at one time and then nothing for a period of time. Dedicate resource time of 15 to 20 minutes per week to updating and make certain you have enough content to post. There are other social media's such as youtube, flickr, and twitter that can be utilized. There are two different distinct accounts in Facebook. There are personal accounts where people have "friends" and there is also an entity page where someone will "like" and follow or become a fan of the entity. All the social networking sites have terms of use and anything that goes up there is no longer private. Security updates on Facebook need to be looked at immediately because on multiple occasions they have released updates that have reset the security settings.

Mr. Moorrees questioned whether there was a recommendation from the AFC to have the Board authorize staff to pursue this option as a media outlet.

Mr. Thomas strongly recommended it because he felt that it would greatly enhance SAWCo's relationship with domestic customers.

Dr. Gattas felt that the remainder of the Board members needed to see the presentation as well.

Mr. Hill questioned the cost factor of starting and maintaining a Facebook page.

The committee felt that the only cost would be the time needed to create and update the page.

Dr. Gattas moved and Mr. Willis seconded to bring Mr. Hanson's presentation to the Board for direction and approval. Motion carried.

Mid-year Budget Review – Mr. Moorrees reported that SAWCo sold water at the beginning of the year to Three Valleys Municipal Water District (TVMWD) and it helped revenues and SAWCo is projected to be about \$115,000 over budgeted revenue. Interest on investments plus reduction of capital reserves resulted in a reduced sub-total for budgeted revenues; however, the Total Income projected is \$111,795 above the original projection.

It was noted that for General and Administrative Expenses, most of the first six months the manager's time was spent on administrative services. The majority of projects are administered in the last six months of the year. The 401k contributions were increased during the year as approved by the Board. Unemployment insurance rate went up from 2% to 5.6%. Additional safety conferences such as the Building Industry Association (BIA) and CORO luncheon were added during the year as well. This leaves SAWCo just above the projected sub-total for expenses.

For Facilities Operations and Maintenance Expenses there was reduced cost for Well 27A rehabilitation but increased cost for boosters. Mr. Moorrees pointed out that there was a survey of facilities from 2009 that was not carried over into this year's budget that should have been, this led to increased costs for Tunnels/Ponds & Spreading Activities. Pipeline leaks and service repairs were also over budget for this point in the year as well as Equipment & Vehicles & Small Tools. Safety, Education Reimbursements, Training, & Travel is currently under budget for the year. SAWCo disposed of a motor saver for Well 24 before its asset life and replaced it with an energy efficient motor and replaced the gaseous chlorine system before its asset life with a Sodium Hypochlorite system and Chlorine Detector. This put SAWCo over budget for Loss on Sale of Assets.

Despite all the additional costs, SAWCo is only projected to exceed their expenses by \$491 for this budget year. The net income projected is 41% of the Calendar Year 2010 Budget but still positive.

Dr. Gattas suggested combining the items titled Employee Benefits and Safety, Education Reimbursement, Training, and Travel into one line item. Ms. Layton responded that the two can be combined and put under General & Administration. Ms. Layton did state that they were kept separately to keep all General & Administration and Operations & Maintenance separate.

There was a consensus that any change to the line items should go thru the auditor first. If he approves the change it should be voted on by the Board.

Meter Fees – Mr. Moorrees reminded the committee of the comment made at the most recent Board meeting about inequity in SAWCo's meter rates. Without a good established methodology as a basis for their current meter rates, SAWCo staff found a methodology for computing meter rates established by the California Public Utilities Commission (CPUC).

Mr. Moorrees directed the committee to Table A in their packets which displayed the current fee schedule and the annual revenue generated from it. He explained that the CPUC methodology is to first determine fixed cost; that is any cost incurred when water is not flowing. According to the CPUC 50% of the fixed cost should be covered by the meter charge with the remaining 50% covered by the commodity rate. In SAWCo's case, annual fixed costs are roughly \$1.2 million with 50% equaling \$600,000.

Mr. Moorrees directed the committee to Table B which listed the proposed meter charge and revenue using the CPUC ratio. He indicated the meter sizes that faced possible decreases or increases in charges based on the new methodology.

Table C proposed raising the minimum meter charge from \$10 to \$15 and listed the projected revenues.

Mr. Moorrees concluded that SAWCo could modify the existing meter charge using the recommended methodology as presented by the CPUC providing an equitable and acceptable ratio in making their fee determinations. Adopting the methodology given, without increase in the minimum meter charge, the proposed change in ratios would provide 65% of the adjusted fixed cost based on the CPUC guideline. Currently, the existing meter rates cover only 51% of fixed costs.

Mr. Thomas suggested finding out what the surrounding agencies charged for meter fees. Mr. Moorrees explained that the reason for looking into the fees was to adopt a methodology for establishing the fees and was not about comparison. Mr. Thomas stated that SAWCo has a commodity rate that is less than half of other agencies and that there is a better argument to increase that rate than increase the meter fees.

Dr. Gattas expressed concern on the bigger meter sizes because the increase was quite significant. Mr. Moorrees explained that the 12 inch meter fee was used for meters larger than 12 inches because previously no fee was adopted beyond 12 inches.

Mr. Willis stated that there should only be enough money to cover the actual cost of getting the work done. He suggested bringing this item up at the next AFC meeting. He would like at that time some analysis on the service being provided, the real cost of the service, and then make the rate conform to that. He would like to make certain there is no excess and there is no deficiency that would prevent SAWCo from providing service.

Mr. Thomas pointed out that SAWCo needs some surplus to provide for capital improvements and maintenance.

Mr. Hill requested comparisons from local agencies as well.

Mr. Moorrees expressed that there was no component in the commodity rate for capital improvements. Mr. Thomas suggested again at looking at adding a third tier to fund water conservation. SAWCo could look at its base rate and tiered rates and also factor in a long term capital improvement plan as a component of the commodity rate and not in the stand by charge.

Mr. Moorrees did state that this was for discussion only and not an action item and will bring it back to the AFC's next meeting.

Field Operations-Establish General Laborer Position – Mr. Moorrees reported the March 2010 termination of a Utility Worker I. It became evident that an entry level position was needed for prospective employees that may be new to the water industry with little or no experience. Mr. Moorrees recommended SAWCo establish a General Laborer position to the organizational chart for Board approval and provide direction to begin recruitment.

Dr. Gattas moved and Mr. Hill seconded to approve the managers recommendation. Motion carried.

Water Rights-Ridgeway & Slater – Mr. Moorrees stated that the purpose of the agenda item was to allow Mr. Ridgeway and Mr. Slater final new arguments or documentation that would allow their existing water diversions from the San Antonio Creek before the Water Company files a legal complaint.

Mr. Willis inquired as to whether there were any comments or new information that has been developed since the last Board meeting.

Mr. Ridgeway replied that he had a letter. He gave a copy to Mr. Moorrees, and read from the paper. The letter stated that Mr. Ridgeway preferred the activity not go in the direction of legal action and requested documentation showing SAWCo had the water rights in the canyon they claim to have.

Mr. Moorrees stated that this issue has been discussed since the previous year. Paperwork was presented previously that showed that SAWCo at one time owned the properties being spoken about and stripped it of all water rights when it was turned over to the San Antonio Liquidated Trust (SALT) and subsequently purchased by Mr. Ridgeway.

Mr. Ridgeway disputed Lots 42 and 27 being stripped of water rights. He made reference to a meeting held on November 17, 2009 in which Mr. Ridgeway's wife pointed out that there were two lots that were listed as not being a part of the subdivision. He agreed that all of the other 49 Lots were stripped but not from the two Lots in question.

Mr. Fudacz stated that this issue has been looked at extensively by SAWCo and they have engaged a title consultant and found there is no dispute about the fact that the Lots have been stripped of rights. The documents to that affect have been shown to Mr. Ridgeway.

Dr. Gattas reported that SAWCo has spent \$28,400 investigating this matter up to this point. SAWCo has given Mr. Ridgeway three extensions to have his attorney(s) look into the matter and get back to the water company. That never occurred. At the August Board meeting Mr. Ridgeway was asked if by the September Board meeting he would have a definitive answer, SAWCo still did not receive one.

Karen Sked, President of the San Antonio Canyon Mutual Service Company (SACMSC), stated that SACMSC has never issued a single share of stock or supplied water to any of the lots in subdivision 1. She stated that Paul Ridgeway does not own stock in SACMSC. Ms. Sked stated that Mr. Ridgeway may feel he is entitled to shares based on the references in subdivision 1 in the 1931 indenture between SAWCo and SACMSC. Ms. Sked stated that when reading the 1931 document it is clear and logical to her as to why he does not have the rights but that it might not be clear enough for everyone to understand. Therefore, SACMSC requests a formal statement from SAWCo as to why the 1931 deed does not apply to the two lots in question and expand it to say all of subdivision 1. SACMSC feels that it would be proper to have that mentioned in the license agreement to avoid any misunderstanding going forward.

Mr. Thomas stated that his impression was that the letter in question was written to a different person and the conditions were never met and that is the reason for the lack of water rights or shares by Mr. Ridgeway and Mr. Slater.

Colin Sked from SACMSC respectfully requested that SACMSC be listed in the indemnity clause stating that they are separate from this issue. He stated that SACMSC is not going to sell shares and they are not going to serve clients up there. Mr. Sked feels that because, at one time, SAWCo put SACMSC shares out as an option and has continually referenced them in Board meeting they would like protection for their shareholders.

Mr. Ridgeway commented that they had never asked for SACMSC to come and run their system.

6. Status report on Staff & Committee items:

History Documentation – Ms. Layton reported that she has the understanding that the history documentation will be completed by the end of October. She is expecting a written explanation by the end of next week to review.

Conservation Update – Ms. Layton reported that the high efficiency clothes washer rebate went up to \$135. Effective June 1, 2010, 84% of funds are still available for residential customers. The multi-family toilet installation program is now charging a \$24 co-pay for each unit installed. Work has been postponed due to state budget delays.

SAWCo has been working with the City of Upland in hosting residential water conservation classes. Thus far three customers attended a workshop on November 7th and March 20th. On September 11th one customer attended a class.

7. Closed Session: Discussion with Special Counsel regarding Water Rights in the San Antonio Canyon (§54956.9 (c))

At 4:00 p.m. the meeting closed for the executive session with Legal Counsel to discuss direction for complaint against Mr. Ridgeway and Mr. Slater.

At 4:25 p.m. the closed session ended. It was concluded that 1.) Mr. Ridgeway was unable to present evidence of water rights, and 2.) The properties held by Mr. Ridgeway and Mr. Slater were once owned by SAWCo which reserved all water rights when it transferred the property.

The Committee directed its attorneys to file a civil complaint against Mr. Ridgeway and Mr. Slater seeking a declaration that their water usage is unlawful and an injunction to enjoin their continued water usage without entering a license agreement with SAWCo which would require metering of the use and appropriate compensation to the Company.

It was also determined that SAWCo would defend SACMS if required as a result of the legal complaint to be filed.

General Manager's Performance Review [subdivision 9b) of Section 54957, CGC]

At 4:29 p.m. the Committee continued in closed session to discuss the Manager's performance. It was determined that Directors Hill and Gattas meet with the Manager to discuss goals and objectives and make recommendations in closed session at the October Board meeting.

8. Committee Comments and Future Agenda Items:
9. Adjournment: - The committee determined there was no further business and adjourned the meeting at 4:30 p.m.

Assistant Secretary
Charles Moorrees