

**MINUTES OF THE ANNUAL MEETING OF SHAREHOLDERS  
OF THE SAN ANTONIO WATER COMPANY**

The Annual Meeting of Shareholders of the San Antonio Water Company (SAWCo) was held as noticed on April 14, 2015 in the council chambers at the Upland City Hall, 460 North Euclid Ave, Upland, California.

Sign-In – Shareholders were requested to sign-in in order to document their presence at the Annual Meeting. All outstanding proxies submitted were verified for validity and effect.

Introductions – President Thomas introduced the current Directors on the Board; Ken Wills, Will Elliott, Glenn Bozar, Sue Sundell, Bob Cable, John Gerardi and himself, the General Manager Mr. Charles Moorrees, the Auditor's representative Craig Miller, CPA, Water Company Staff, long-standing legal counsel Tom McPeters (not present), special legal counsel Fred Fudacz (late arrival), and the Inspectors of Election: Peter Cherbak, Betty Garrison, and Donna Hawthorne.

Validation of Annual Meeting Quorum – General Manager Charles Moorrees reported that the meeting has been properly noticed. Inspector of Election Donna Hawthorne reported that there is a quorum present.

Call to Order – President Thomas called the meeting to order at 6:00 pm.

2014 Annual Meeting Minutes – Director Thomas asked if there were any corrections needed to the 2014 Annual Meeting minutes. Director Bozar moved and Director Cable seconded to approve the minutes of the 2014 Annual Meeting as presented. Director Thomas asked for a voice vote and the motion carried.

Manager's Report – Mr. Moorrees conducted a PowerPoint presentation highlighting the previous year's events. Total local rainfall at the San Antonio Dam was at 11.15 inches which is about 50% of the long term annual average of 22.40 inches going back to 1958. He pointed out that water levels in the Cucamonga Basin dropped 25 feet throughout the year causing Nitrates and DBCP levels to increase. Wells 15 and 16 in the Chino Basin produced 103% of the Company's Operating Safe Yield (OSY). The need to utilize all production rights in the Chino Basin will eventually deplete SAWCo's water storage account. The water table level was down by 33 feet. Water levels in the Six Basins (Wells 26, 27A, and Well 25A) have decreased an additional 15 feet from the previous year causing air entrainment issues in Well 26. Operating Safe Yield (OSY) in this basin was reduced in this basin for a second consecutive year; down from 17,500 AF to 16,500 AF. This reduction in safe yield also reduced SAWCo's share of water in the basin from 1,254 AF/year to 1,182 AF/year. SAWCo recharged a total of 52 acre-feet (AF) in the San Antonio Spread Grounds during the year with an ending storage balance of 2,115 AF. This storage balance helps the company reconcile their service agreements with local shareholder entities. In addition, only 77 AF of water was spread in the Cucamonga Basin compared to 785 AF the previous year. The amount spread goes toward SAWCo's long term average and ability to produce an additional 2,000 AF of production rights. However, if SAWCo cannot maintain its average, it will decrease its ability to produce out of the basin.

Capital Projects for the water company included the Forebay Improvement Project Completion and Ribbon Cutting with a total cost in 2014 of \$242,569 and Well 25A Site Improvements with a total cost in 2014 of \$129,590. Additional capital projects included irrigation pipeline replacement in the amount of \$128,802, waterline replacement on Mountain Drive and Vista Drive for a total of \$328,088, and a pipeline connection to the Water Facilities Authority at a cost of \$103,251.

Administrative Activities that took place in 2014 were the purchase and implementation of a new billing system for a total of \$116,800. This allows for the integration of the accounting and billing systems. The Classification and Compensation Study began in 2014 and adjusted the classification and job descriptions for staff as well as addressed economic changes and provided a salary survey of positions in like water industry entities.

Operational Improvements in 2014 included Well 26 rehabilitation at a cost of \$100,335; Well 32 rehabilitation at a cost of \$76,211; the purchase of a new pump truck for \$50,000; the purchase of emergency supplies and storage bin for \$8,000; and the installation of office security fencing and gate at a cost of \$20,000.

Operational Activities included removing a blockage and addressing water quality issues with the Domestic Tunnel at a cost of \$155,356. The tunnel is now operating but water quality issues continue.

Some administration and operations items purchase in 2014 included the replacement of the low band radio antenna, and the purchase of a check scanner for processing payments. A chop saw, welder and additional water quality equipment were additional capital expenses for operations use.

The Water Company is in the process of engineering the Chino Basin Recharge Pipeline which will be constructed within the logical extension of 24<sup>th</sup> Street west to the San Antonio Channel to facilitate recharge water into the Chino Basin. The water company has the water rights to the Frankish Tunnel however it is not currently connected to water delivery system and is planning to and capture seasonal flows from the tunnel. The Cucamonga Crosswalls project has been on-going for three years as the process has been difficult in obtaining regional and regulatory permits and approval. We anticipate that Basin 6 Desilting project will be done in conjunction with the Cucamonga Crosswalls project. The water company is developing solutions to separate dissolved air in its delivery system of surface water to the City of Upland treatment plant as it interrupts the treatment plant's filters.

Development in 2014 included the replacement of 927 linear feet (LF) of SAWCo's 18" irrigation pipeline which contributed \$127,654 to capital income. The Holly Hills water system was quitclaimed to the water company and contributed \$93,500 to capital. A total of nine residential homes were built in the San Antonio Heights with six completed and currently being metered.

SAWCo continues its water rights investigation in Mt. Baldy and have solicited a response from the United States Department of Agriculture (USDA) and from the State Water Resources Control Board (SWRCB). SWRCB has requested the basis of water rights from the Mt. Baldy parties involved.

The water company continues to maintain a Facebook page, a quarterly newsletter, and a website to keep their shareholders informed. During the year SAWCo also hosted a conservation table at the Annual San Antonio Heights Association Meeting, at which staff made a presentation, as well as the Citizen's Patrol George Lee Pancake Breakfast. A Stock Auction was held to auction off two, ¼ shares of SAWCo stock. Beginning in September of 2014 the water rates increased from \$0.48/hundred cubic feet (hcf) to \$0.51/hcf for the base rate and \$1.13/hcf to \$1.16/hcf for the tiered rate. The current drought reduced the amount of water SAWCo was able to produce in 2013 by 18% which in turn required SAWCo to reduce water share entitlement by 18% effective March 1, 2014. A drought rate replaced the tiered rate at \$1.33/hcf and the Moderate Shortage Stage for water use was enacted. SAWCo continues to be active in the San Antonio Creek Watershed Committee and participated in the 10<sup>th</sup> Annual Watershed Clean Up Day.

Mr. Moorrees then reported on the upcoming documents and studies for 2015 which include the Edison Pond Expansion Feasibility Study, the Alternative Energy Study, the San Antonio Creek Sanitary Study, the New Office Relocation Study, the Urban Water Management Plan and the Water Master Plan.

Mr. Moorrees explained in more detail what the Water Master Plan would entail. A Vision Day has been proposed to help with Strategic Planning. The water company is taking a proactive response to the changing water environment in California and learning to respond to an emerging reality. They are attempting to align shared visions with shareholder involvement and develop new strategies along with forging new partnerships.

Upcoming projects for 2015 include the possible construction of a Chino Basin Recharge Pipeline, Frankish Tunnel Pipeline Connection, and the desilting and repair of the Cucamonga Crosswalls and Basin 6. Also scheduled for 2015 are an Air Separation System for treatment plant delivery, waterline replacement for Spring

Terrace and Wild Rose Lane, an Emergency connection to Cucamonga Valley Water District and possibly an Ultra Violet Treatment Facility for the water company's Tunnel water supply.

Capital Outlay Administrative Projects for 2015 include replacement of office and yard facility computers, implementation of a Business Continuity System, office floor covering replacement, a wireless bridge allowing access to the office server from the yard facility, water stock database software, and new programs for water conservation.

Capital Outlay Field Projects for 2015 consist of replacement of the backyard fence at the yard facility, residential meter replacement, a new field laptop and an automatic meter read gun and charger.

Director Thomas thanked Mr. Moorrees and stated there is a section later in the meeting should anyone have questions.

Statement of General Counsel

Mr. McPeters was unable to attend due to illness.

Statement of Special Counsel

Mr. Fudacz updated the Board, staff and shareholders on the company's efforts to protect its water rights in the San Antonio Creek. A complaint has been filed with the State Water Resources Control Board (SWRCB) in April 2013 against the United States Forest Service (USFS), the Mt. Baldy Homeowners Association (Mt. Baldy HOA), and Snowcrest Heights Improvement Association (SHIA). The USFS is using more than its water right entitlement and is infringing upon SAWCo's water rights on the USFS property and allowing diversion of water to take place on that public land to service water to private land owners without water rights. The complaint was filed with SWRCB after years of attempting to resolve the issues with the involved parties directly with no progress.

In April 2014 a letter from the SWRCB was received by the water company that was addressed to the USFS, SHIA and the Mt. Baldy HOA. In the letter the SWRCB requested the entities explain what they are doing and what the legal basis is for their diversions and use of water and why they felt they were not violating SAWCo's water rights in doing so.

In June 2014 responses were filed by all three parties. USFS claimed riparian rights, however, those rights are subordinate under applicable Supreme Court law in California to SAWCo's water rights. They also acknowledged not knowing where all the water was being diverted to, stating many were illegal diversions and that none are being metered. Mt. Baldy HOA claimed water rights through the USFS and also that they had prescriptive rights. SHIA also claimed water rights through the USFS but also claimed some nominal water rights through a deed issued on the Vernon property.

In November 2014 a lengthy response was drafted by SAWCo to three responses. The water company challenged that all claims by all three parties were without legal support. No response from the SWRCB has been received.

Directors Terms and Other Business – Director Thomas advised that two years ago under new state law SAWCo switched to four-year terms. The terms were staggered at that time with four of the directors serving four-year terms and three serving two-year terms. This year Director Will Elliott's, Director Sue Sundell's and Director John Gerardi's term on the Board is up for election. All three were nominated again this year for four-year terms. No additional nominations were received.

Director Willis moved and Director Gerardi seconded to elect Sue Sundell, Will Elliott, and John Gerardi for four-year terms on the SAWCo Board of Directors. Motion carried.

Directors serving a 4-year term [2015-2019]:

Sue Sundell

Will Elliott

John Gerardi

Director Thomas received the Inspector's Proxy Report.

Shareholders and Public Testimony – Director Thomas gave a brief statement as to how this process works [This is the time for any Shareholder or member of the public to address the board members on any topic under the jurisdiction of the Company, which is on or not on the agenda. For any testimony, speakers are requested to keep their comments to no more than four (4) minutes, including the use of any visual aids, and to do so in a focused and orderly manner. Anyone wishing to speak is requested to voluntarily fill out and submit a speaker's form to the manager prior to speaking].

Mr. Lloyd Garrison submitted a speaker's form inquiring if the City of Upland was operating under the same water restrictions SAWCo was. Director Thomas explained each water agency has different restrictions. Director Bozar stated that the City of Upland is formulating their plan for the mandated reduction and will soon be moving to a two-day irrigation schedule along with other restrictions. Landscaping ordinances are also being updated. Mr. Garrison expressed his willingness to conserve and do what is necessary during this water crisis. He questioned whether SAWCo's domestic customers are subsidizing the water for the City of Upland. Director Thomas informed Mr. Garrison that shareholders receive water based on their shareholdings in the water company. He assured Mr. Garrison that SAWCo's domestic customers are not subsidizing the City of Upland. The City of Upland has not been using water in excess of their entitlement which is based on the number of shares they hold in the company. It is more common to see shareholders living in the domestic service area go over and above their entitlement.

Mr. Ken Petschow inquired about the situation in Mt. Baldy with illegal water use and whether or not the water company is able to install meters. Mr. Moorrees explained that is the way they were headed. SAWCo does have agreements with two residences that have their diversions metered and hope to have more agreements in the future. Mr. Petschow thanked the Directors.

Director Gerardi moved and Director Willis seconded to adjourn the meeting. Motion carried. The meeting was adjourned at 6:44 p.m.

For the record, it was noted that there were 22 shareholders signed in as attending the Annual Meeting; a total of 49.25 shares present and 4,352.65 represented by proxy.

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Assistant Secretary  
Charles Moorrees