

Villa del Monte Mutual Water Company

Shareholder's Annual Meeting Minutes

Originally scheduled for April 2, 2020 and postponed due to COVID-19 shelter in place order Pursuant to the California Governor's Executive Order N-29-20 this meeting is being held via Zoom teleconference on August 31, 2020 at 7:30 pm.

Introductions

Board Members

- Mike Miller
- John Overstreet
- Jim Culp
- Fred Eggers
- Pradeep Sanders

Key Sub-Contracted Personnel

- Jennifer LaForce
- Gary MacKenzie
- David Montion

Election of (3) Directors:

Mike Miller, John Overstreet and Fred Eggers for (2) year terms as per Bylaws, Section 6.5: Election of board members shall be by majority of cast votes in person or by proxy at annual meetings. The directors were unanimously elected by the 27 proxies sent in and the 14 in person votes at the meeting. 20 members were in attendance at the meeting, but 6 had already sent in proxies.

Annual Operations Report

Item-1 Filter plant and pumping

The filter plant has been out of service and will remain out of service until the storage tank replacement project is completed. For the most part, the temporary tank farm has worked. With limited storage (+/- 1 full days use of water), we are dependent on the operation of water delivery from San Jose Water Company (our alternate source). The uphill pressure system is still active and working well. Photos of the plant were shared in the presentation.

Item-2 Source water from Laurel Creek

During our storage tank replacement project we have not been able to utilize the water from Laurel Creek. The pumping station has no issues at this time.

Item-3 Supplemental source water from SJW company (Montevina pipeline)

We receive supplemental water from San Jose Mutual Water Company. The water runs from the treatment plant at Lexington Reservoir up Old Santa Cruz highway and down summit road. It passes through 3 pump stations owned and operated by SJW company and 1 pump station owned jointly by Villa Del Monte and Big Redwood Park. In 2017, SJW changed from "chlorine" disinfection to "chloramine" disinfection. This is significant because our VDM treatment plant was designed to disinfect our water with chlorine and the two methods are not compatible. Blending chlorine treated water with chloramine treated water destabilizes the disinfection properties. And nullifies the ability for either method to work properly. This has caused us to initiate an upgrade to our treatment plant. As part of our project we are adding systems and controls to allow us to use chloramine disinfection in our system as well. (See the attached Water treatment and water storage project update)

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Item-4 Tank condition

The roof structure on our 50 plus year old water storage tank is failing! We have taken our large storage tank out of service. We have initiated a storage tank replacement project.(See the attached Water treatment and water storage project update.

Item-5 Distribution (Pipe conditions)

Our distribution piping is old and in need of repair. We have reviewed several grant options to help fund a large pipe replacement project, but we do not qualify because of our average income levels. We continue to repair leaks and replace pipe sections as our budget allows.

Item-6 Storage tank and disinfection project

Mike presented updated data, engineering drawings and discussed the storage tank history. Mike explained increased costs, efforts to keep costs down and financing options. See Questions and Answers below for discussion. Also see the attached Water Treatment and Water Storage update for general project description. The presentation has additional updates and specifics that should be referred to. The presentation will be sent out to all attendees.

Item-7 Newly enforced “mandatory” rules for cross connection control

Mike explained that cross connection is a concern for any home connected to a public water system that may have an alternate source of water that could back feed into our distribution system. We have been directed to implement a “Cross Connection Control Plan” that includes surveying individual properties to identify this risk. (State Board’s Division of Drinking Water Titles 17 and 22 California Code of Regulations). Most notably this would be properties with a private well on which the well shares or is connected to the potable water at the home (VDM water). When this occurs, a special backflow prevention device would be required to be installed and tested annually. Backflow Prevention Specialists have indicated almost every home in our system will require a backflow prevention device. See the attached cross connection control update for general project description. the attached project updates are for general project description.

Treasurer’s report and presentation of the 2020 Budget; projected expenditures and financial needs of the company:

John presented the 2020 budget for income and expenditure as well as some information on assets and liabilities. John also presented a comparative financial report assessing both any impact from COVID-19 as well as the current projects impact. The Treasurer’s report is available for review upon request. Review to comply with Senate Bill 240 for the 2018 financials was successfully completed by a third party CPA with no findings. Jeremy Thielen, CPA Tax & Wealth Strategies Thielen & Associates Inc. The Financial Review is available for review upon request.

Questions and suggestions to the Board

Brian Caldwell: When Laurel Creek water is available, does this free water reduce our individual household costs? Will you share this slide deck after the meeting?

Answer (JO): The cost to the water company is much lower. The cost to the customer is blended so there is not a change the shareholder bills. Yes, we share the slide deck.

Vikki Pachera: How many Villa houses are not on the VDM Water Company? Frankly, I feel the members bear the financial burden of fire fighting for those on wells or pulling water from creeks. Thoughts "inviting" those neighbors?

Answer (MM): We consistently invite neighbors to join, and they don’t. You are right. They have an

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advantage. Regarding local fire risk we need a reliable robust water system.

Answer (PS): New construction and remodels are required to have fire tanks.

Renata Harbison: Chloramine has been shown to cause pin hole leaks in copper pipes. Is that something we should be concerned about as homeowners? Are there any proactive steps we should take to address the change from chlorine to chloramine?

Answer (JO): There is a great paper from the Department of Interior which says that Chloramine does not cause pin hole leaks in copper but it does remove scales. (MM) Weekly water testing also helps us track chemical levels and ensures we never over disinfect.

Vikki Pachera: How does this new number (for storage tank project) compare to the earlier estimate?

Answer (JO): John presented the older estimates online.

Brian Caldwell: What does the monthly payment amount to if all 127 members opt for the loan rather than the lump sum?

Answer (JO): It doesn't matter how many people opt to pay up front. Each shareholder would need to pay the 1 out of 127 share. If half opt to pay up front, the loan is for half the total and there are half as many paying the loan back.

Jennifer LaForce: Can I hire a local handyman to install the backflow device or must it be a certified professional?

Answer (MM): Yes, you can use a handyman or you can install it yourself but you must use an approved device.

Alejandro Arnaiz: Backflow Prevention quoted us \$384 for one 2-hr survey which includes 1-hr for typing the report.

Alexandra Hughmanick: Do we need to install the back flow device if our home is lower than the water facility?

Answer (JO): Yes, if there are any other homes lower in elevation than you are, your house will drain into the lines down to their houses.

Alejandro Arnaiz: Will there be water service down time during the tank replacement period?

Answer (MM): There could be but it should be very limited.

Azadeh Nolan: People on the loan would have to pay the interest on that portion though, right?

Answer (JO): Yes.

Renata Harbison: We are new to the neighborhood and haven't been able to meet our neighbors due to COVID-19. We would love to coordinate with neighbors in Villa del Monte to install a backflow device at our house and would love some advice on how to coordinate our efforts.

Brian Caldwell: What is the expected monthly assessment for tank project?

Answer (MM): Looks like it's between \$80 to \$90.

Neil Wiley: Is it safe to use regular chlorine in a spa?

Answer (PS): Yes, the chemistry is completely different in the spa as compared to storage tanks.

Azadeh Nolan: Hard date for decision? People (self included) do better with target date aka deadline :)

Answer (MM): It's time to start thinking about it now. Probably within a month or two.

Answer (JO): We won't know true totals until construction is complete.

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P.O. Box 862
Los Gatos, CA 95031-0862

Cross Connection Control update

May 20, 2020

Executive summary

1. A field survey performed by the State Water Resources Control Board Division of Drinking Water noted our water system had not implemented a required Cross Connection Control Plan (CCCP).
2. We have hired Back Flow Prevention Specialist Inc. to guide us to implement the CCCP for our system.
3. Initial review indicates most homes on our system pose significant risk to the distribution system and will require the installation of a backflow prevention device just after the meter serving the property. (Existing wells, swimming pools, meter locations below the residence and improperly installed irrigation systems are all high-risk concerns)
4. A homeowner will have a choice to:
 - a. Pay for survey performed by a licensed plumbing contractor confirming all plumbing is installed per code and no existing or future cross connection potential exists. (This survey would need to be completed for the property now and at five-year intervals)
 - b. Or, have a contractor install an approved backflow prevention device just after the meter. (These devices are required to be tested annually)
5. How much should one budget for this work if I want to not install a backflow device?
 - a. Property survey could cost between \$500 and \$750.
 - b. Onsite plumbing repairs or upgrades cannot be estimated.
 - c. Property survey and compliance certificate is required every five years.
6. How much should one budget for this work if I just go ahead and install a backflow device?
 - a. Initial installation could cost between \$1,500 and \$5,000.
 - b. Annual testing of the device +/- \$200
7. How quickly will this need to be completed.
 - a. We would like members to identify which approach they wish to take by August.
 - b. We would like to have the system in compliance by August 2021.

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What are cross-connections?

Cross-connections are actual and potential unprotected connections between a potable water system and any source or system containing unapproved water or a substance which is not safe. Examples of cross-connections include:

1. Improperly installed irrigation systems that may allow back siphonage of stagnant, bacteriologically unsafe water into the piping system.
2. Improperly plumbed water-using devices such as hot-tubs, boilers or commercial dishwashers which may allow unsafe water back into the domestic piping system.
3. Irrigation systems served by an auxiliary source, such as a private well or creek. Such systems create a potential for major contamination of the public water system via interties with the domestic piping system.
4. Interconnections between the potable system and a non-potable system.

What the Regulations Require

Section 7584 of the California Code of Regulations requires that each public water system have a cross connection control program that includes these elements:

1. The adoption of operating rules or ordinances to implement the cross-connection program.
2. The conducting of surveys to identify water user premises where cross-connections are likely to occur.
3. The provisions of backflow protection by the water user at the user's connection or within the user's premises or both.
4. The provision of at least one person trained in cross-connection control to carry out the cross-connection program.
5. The establishment of a procedure or system for testing backflow preventers
6. The maintenance of records of locations, tests, and repairs of backflow preventers.

Re-cap of the cross-connection control issue.

1. Our system

- a. Santa Cruz County Environmental Health Services department has been assigned to be responsible for the oversight responsibility of our system since it was established in 1962.
- b. Agencies are required to perform sanitary engineering and public health evaluations of community water systems every five years.
- c. Cross connection control standards were not required at the time.

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2. What changed?

- a. California issued Title-17 Code of Regulations in June 2001 covering drinking water supplies. This code was created to have water suppliers “adopt operating rules or ordinances to implement a cross-connection program”.
This change was not significantly flagged to us by any regulators and was not implemented by VDM.
- b. Beginning in 2017 the oversight responsibility of our system changed from Santa Cruz County Environmental Health Services to the State Water Resources Control Board Division of Drinking Water.
- c. This change prompted a new water system evaluation by a new agency representative. As this person did not have previous knowledge of our system and aware of the updated regulations, performed a more thorough review than any past inspector.
- d. This also happened to coincide with the issuance of the updated California Regulations related to drinking water issued in December 2016.
https://www.waterboards.ca.gov/drinking_water/programs/districts/docs/visalia/7_sws_comm_crossconn_guide.pdf

3. The issue

- a. During the evaluation, it was pointed out to us that our system operations schedule did not include a mandatory cross connection control program.
- b. We have been directed to implement a “Cross Connection Control Plan”**
- c. We are concerned with more than 50% of our members having either active or inactive wells on their property that this fact alone would require that property to have a backflow prevention device installed. So this immediately effects many of our members.
- d. Another notable installation trigger is if a meter is located at a lower elevation than the home. As we are mountain community, this also applies to a great number of homes on our system.

4. Next steps

- a. We have hired Back Flow Prevention Specialist Inc. to guide us to implement the CCCP for our system.
- b. Initial review indicates most homes on our system pose significant risk to the distribution system and will require the installation of a backflow prevention device just after the meter serving the property. (Existing wells, swimming pools, meter locations below the residence and improperly installed irrigation systems are all high-risk concerns)

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- c. With the help from Back Flow Prevention Specialist Inc., we will develop and adopt a cross connection control plan for our system.
- d. We will distribute the plan to our members and identify the two options they have to show their property is either in compliance with Title-17 Code of Regulations or determine which path they will take to become compliant.

A homeowner will have a choice to:

- i. Pay for a survey performed by a licensed plumbing contractor confirming all plumbing is installed per code and no existing or future cross connection potentials exists. (This survey would need to be completed for the property now and at five-year intervals)
- ii. Or, have a contractor install an approved backflow prevention device just after the meter. (These devices are required to be tested annually)

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Water treatment and water storage project update

May 20, 2020

Re-cap of Water Treatment issues

1. Our system

- a. VDM's primary source water is from Laurel Creek using our own water treatment plant which uses chlorine disinfection treatment methods. Additionally, supplemental water is provided by San Jose Water Company (SJWC) distributed through the Montevina pipeline. This has worked well for more than 20 years.

2. What changed?

- a. In 2017 SJWC notified us they would be changing from **chlorine**-based disinfection to **chloramine**-based disinfection later in the year. (Chloramine is a blend of chlorine and ammonia, specifically mono-chloramine)

3. Why the change?

- a. When Chlorine is used for disinfection, by products form that can be harmful to humans at certain levels. They are Trihalomethanes and Haloacetic acids (THMs and HAAs)
- b. By carefully administering the chlorine dosage, these byproducts are kept below the health risk levels.
- c. Chloramine disinfection is just as effective as chlorine disinfection and produces substantially lower concentrations of disinfection byproducts in the distribution system. So many believe this is a healthier approach.

4. The issue

- a. The new chloramine-based disinfection treatment method is not compatible with our chlorine-based treatment method. When the two waters blend together, the disinfection properties are reduced.
- b. Additionally, the effectiveness of the chloraminated water does not last as long in our large storage tank.
- c. As our water system cannot produce 100% of our water, we had to shut down our treatment plant switching solely to SJWC purchased water.

Re-cap of our Water Storage Issue

1. The center support post of our 300,000-gallon water storage tank has failed.
2. We contracted Preferred Tank and Inspection company to come out and perform a complete tank inspection. In their report, they concluded the tank is beyond repair.

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Temporary Storage

1. We have completed a temporary storage tank farm utilizing (6) 5,000-gallon poly storage tanks placed up by the reservoir. The plan was reviewed and approved by the county and is in operation.
2. This allows us to utilize the SJWC water without concerns about disinfection deterioration.
3. The temporary tanks were intended to allow us to replace the existing tank without interruption of service. (This has not worked out, see below)
4. The cost of all of the temporary system was covered by the VDM reserve funds.

Water treatment and storage solutions update

1. Our Board has concluded that we need to resolve both the water treatment issue and the water storage issue at the same time.
2. We hired Pacific Crest Engineering to perform a geotechnical report.
 - a. The report shows we can utilize the existing site for a replacement storage tank in the same location as the existing tank.
 - b. This report has been submitted to Santa Cruz County Environmental Planning department for review and is pending their response.
 - c. The engineering and SCCEP processing fee has been funded from our existing reserves.
 - d. The county rejected the geotechnical report and insisted we provide a cross sectional exploratory trench. 60 feet long and 5 feet deep.
After several phone calls and a site visit, we agreed to perform (2) 30 foot trenches for geotechnical review.
We performed the excavations on July 23rd and found evidence of past vertical movement in the soil greater than 24". The structural engineer stated they cannot design the tank foundation to withstand this type of movement so the county will not allow us to utilize the existing tank site location.
 - e. We then worked with our geotechnical team to identify an alternate tank site location by the existing reservoir (Where the temporary tanks are currently located)
 - f. We performed another exploratory trench excavation on September 16th. This the Santa Cruz County geologist was on site and verbally agreed this site was acceptable.
 - g. Pacific Crest work is now complete.

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3. We have hired MNS Engineers to design a treatment system upgrade and compatible new water storage tank.
 - a. MNS changed their drawings to now show the tank location up beside the reservoir. This includes significant additional piping, electrical and controls work. And relocation of the temporary water tanks during construction.
 - b. MNS updated their conceptual budget which now shows our total project cost budgeted at \$1,450,000.
 - c. We submitted permit drawings to Santa Cruz County Building Department February 16,2020.
 - d. We submitted the geotechnical report to Santa Cruz County Building Department February 16,2020.
 - e. Planning department requested a few changes and questions. These were responded to by MNS and answered to the planning department's satisfaction by May12, 2020.
 - f. Pending comments from the SCC geotechnical reviewer.

4. Construction manager selections.
 - a. We solicited bids from (4) recommended companies.
 - b. We received (3) complete proposals and reviewed them against each other.
 - i. Hollenbeck Consulting
 - ii. SOS Consulting
 - iii. Freyer and Laureta Inc.
 - c. The Freyer and Laureta Inc., proposal was priced in the middle of the group, but included a support team with much higher qualifications and locally available personnel
 - d. We have contracted with Freyer & Laureta to begin with their pre-construction services.

5. Our next steps
 - a. Construction drawing submission to Santa Cruz County building department.
(Target June 2020)
 - b. Contractor bids
 - i. This is when our budget for the work becomes valid.
 - ii. Target June 2020
 - c. Get financing in place in order to fund construction.
There will be two options for our members.
 - i. Allow members to pay a one-time assessment.
 - Based on the projected budget of \$1,400,000, each member's portion would be +/- \$11,500
 - Still variable until the contractor bids are received
 - ii. Take out a loan.
 - Due to our membership in the California Rural Water Association, the Villa del Monte Mutual Water Company does qualify for financing without having any of our member's homes becoming collateral.

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- This would be a 20-year loan for the entire amount of the project or a lesser amount if some of our members choose to pay the assessment upfront.
 - The members choosing the loan option would become part of a 20-year loan with monthly payments added to their individual monthly water bills.
 - The loan program does not allow for early payment payoff during the progress of the loan, so this should be weighed in the members decision making process.
- d. Begin construction
- i. With contractor support create a construction schedule
 - ii. Target July/ August 2020 start

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Letter to Shareholder's
May 20, 2020

Members and Neighbors,

Like all of you, I find myself addressing a challenging and new reality as the world comes to understand and adapt to all the changes caused by the COVID-19 pandemic. During which time we all still need to attend to the basics of life.

Many of us are working in essential jobs (thank you for that), many of us will return to a modified work environment and many of us will work from home for many months to come. Our children's educations must continue (although in a much different way), bills are still arriving in our mailbox (or email), and – to the extent we can – we are moving our lives forward.

During this time, our water system continues to operate. It of course needs the same level of operating support it always has. We have been well served by our water operator Gary MacKenzie and his team, as well as our local support contractors like David Montion. They have modified their daily activities to allow for the recommended safety PPE and social distancing as they perform their work.

Unfortunately, we were not able to hold our annual meeting last April. As you know we have important information we were hoping to share regarding our system operation and upcoming improvement projects.

I want to highlight the most important items affecting the system operation and subsequently each of our individual upcoming financial budgets.

- The tank replacement and water treatment upgrade project.
- The state mandated cross connection control plan.

Yes, as noted in the last two years annual reports, we are facing the need to either issue an assessment or raise rates to cover a loan to pay for these essential improvements.

I have attached the Annual Share Holders meeting agenda I prepared that provides details about our system and specifically the current project details. These are quite substantial projects and I encourage you to review them.

Please remember, we are a mutual water company and as such we jointly own our water system. We operate by the support of five volunteer board members (your neighbors). And we are always open to member participation and available for tours or to answer questions.

Sincerely,



Mike Miller
Board President
Villa del Monte Mutual Water Company

Mutual water companies provide water service in rural areas that have no alternative supplies, and in urban pockets where property owners continue to hold mutual water company shares and liability for the integrity of the water system