

O'Connor Tract Co-Operative Water Co.
Minutes of the Annual Meeting of the Members
Held at Laurel School Upper Campus, 275 Elliott Dr, Menlo Park California
7:30pm Thursday January 31, 2019

1. Call to Order

Mr. Jones called the meeting to order at 7:35 pm.

2. Introductions

All attendees introduced themselves. Mr. Jones then introduced the Board of Directors, the Alternates, and the staff.

3. Roll Call

Board Directors:

Present

David Jones
Judy Windt
Mike Frank
Randy Dolenece

Absent:

Todd Rosenthal

Staff Present:

On-call Water Operator

Manny Nathenson

Secretary/Treasurer

Ana Pedreiro

Board Alternates:

Present

Court Skinner
Sandy Lee
Hossein Ashktorab
Ana Pedros

Absent: Jane Ratchye

Staff Absent

Supervising Water Operator

Rich Pattison

Staff Present

Water Operator

Mark Johnson

Members:

Note: Because the Company is a private company, the names of members participating in this meeting have been removed for privacy reasons from the published Minutes on the Company's website. The minutes do include the names of directors, alternates, and staff and when they made statements or took actions during the meeting. Any Member, resident in our service area, city or county elected official may obtain a complete copy of the minutes upon written request.

Quorum	Acres	%
Total Company Acreage ¹	80.813	100%
Quorum needed for this meeting ²	44.45	55%
Proxy Quorum Received	45.481	56.27%
Meeting In-Person Quorum	6.966	8.62%
Total Quorum	52.447	64.89%

¹ Excludes the school acreage since a public entity cannot be a member of a mutual water company (state law).

² 55% required for approval of debt, financing etc.. Normally, the annual meeting requires 25% quorum.

4. Approval of the Minutes

The 2018 Minutes were posted on the Company's website and members were asked to read them before attending the meeting.

Mr. Ashktorab moved and Member seconded that the minutes of the Annual Meeting of January 26, 2018 be approved as submitted. Carried.

5. Operations & Planning Reports

- a. Mr. Jones presented the 2018 capital improvements (valves, meters, new services, equipment, and manganese treatment plant planning phase).

He explained in more detail the capital improvements made to the emergency connection with Menlo Park. The Company and the City replaced the existing meter and installed two blowoffs. This connection has never been used but these improvements will reduce the risk of biological contamination and assure that the system will work in case of emergencies. This is a manual connection.

For context, the other emergency connection is with the City of East Palo Alto. If the water pressure drops to below 40 psi, the valve automatically opens for us to receive East Palo Alto water.

He explained all the maintenance contingencies that occurred in 2018.

Q: Are these all the leaks reported in 2018?

A: No, only emergency ones, usually ones that require water shutoffs.

Q: How are leaks detected?

A: Leaks are reported by members.

Mr. Jones briefly explained the Company's business operations.

Having no questions from members, he asked Mr. Nathenson to explain the water quality report.

- b. Mr. Nathenson explained the Annual Water Quality Report:

- This report is a draft since the State has not yet released the required language for the 2019 report.
- The Company took the annual samples and reported to the State.
- The Company tests for many other chemicals but does not include them in this report if the chemical is not detected.
- Samples are taken from both wells, but most water used is from well #1 as it has lower levels of manganese.
- Routine Samples – The Company takes three samples per month for total coliform and e. coli. Last year we had a positive total coliform result, due to a valve installation on a main. Coliform samples are taken from sampling stations. We followed corrective action procedures, chlorinated the system, and tested two houses (one up and one down) from the sampling station, as well as the wells. The same site was positive again, while all other tests were negative. We repeated the procedure and the result was again positive for the one sampling station. The third time the samples were all negative. Coliform is an indicator species, not harmful. We tested for e. coli, which came back negative on all samples.
- Manganese: Above the secondary levels. Mr. Jones will have more details below.
- Lead and Copper: we test every three years. Lead solder was prohibited in 1988. A few years ago we did materials inventory and selected ten Tier 1 sites. The maximum contaminant level for lead is 15 ppb. Of the ten tests, eight were non-detected, one had 4.9 ppb, and another had 19 ppb.

Q: What do you recommend for old houses, built before 1983?

A: Let the water run for 30 seconds. If you are really concerned, have the water tested.

Q: Do you test for lead and copper from the source?

A: Yes. There is no lead or copper from the source; it comes from plumbing.

Q: How often are the wells tested?

A: For chemistry once a year, although the State requirement is every three years. We test every year because we don't want to present a two-year-old or three-year-old report to our members. We test for manganese quarterly.

Q: Is well #2 the deeper well?

A: No, it is the shallower, and has higher levels of manganese.

Q: Will you start fluoridating the water?

A: We haven't discussed it and there are no plans to. There are many people who are against it. If you would like to discuss it, we suggest you bring the topic to a regular meeting.

6. Administrative Reports

a. Mr. Jones presented the 2018 Audit Report.

He explained that the audit report presents financial results on an accrual basis and that the annual budget reviewed in the next agenda item is on a cash basis (because it is focused on resource inflows and outflows), so there are slight differences in the revenue and expense line items. In summary, the auditor's opinion is that the financial statements present fairly the financial position of the Company for the year and follow generally accepted accounting principles.

Member moved and Member seconded to accept the 2018 Audit Report. Carried.

b. Mr. Jones presented the 2019 Operating and Capital Budget with comparative data from 2017 and 2018. A few line items were explained:

- Increase in Revenue Water Usage, which comes from increasing water usage now that there is not a drought.
- Operations & Maintenance Contract expenses, now zero for 2019 because we no longer are contemplating sharing a water operator with the City of Menlo Park.
- Tax & License Expense, higher than expected last year because we are not exempt from California taxes on operating net income, and we had more operating income as we replenished our cash reserves.
- For Capital – Equipment, the \$300,000 is an estimated expense for down payment for the manganese treatment plant and site improvements for that project, expected to occur before the end of 2019. The budget assumes that we will spend our excess reserves from the end of 2018 of approximately \$209,000 on this capital equipment expense, budgeting to keep our cash reserves at our target of \$500,000.
- The budget also assumes we will have the manganese treatment plant financing in place to cover the remaining budgeted capital equipment costs in the second half of the year. The Company would not start construction on the manganese treatment plant without the full means to pay for it via the financing. The total cost of the plant is estimated between \$1 to \$1.25 million. More details below, under Financing, page 5.

Q: Why is interest so low?

A: These are the rates offered by our existing banking relationships. We will open a fourth account at a different bank to keep all accounts under the \$250K threshold insured by the FDIC. Mr. Jones said the Company would look at opportunities to make higher interest income from our cash accounts and reserves.

Mr. Dolenc moved and Member seconded to approve the 2019 Operating and Capital Budget. Carried.

c. Manganese treatment plant

History

Mr. Jones presented a brief background:

- The water is safe to drink, but does not meet the State’s 50 ppb (parts per billion) secondary standard for manganese.
- October 2012 – the California Division of Drinking Water issued a manganese secondary maximum contaminant level violation
- March 2013 – Board hired Fall Creek Engineering (FCE) to prepare manganese treatment options
- August 2016 – Membership vote did not support requesting a waiver to treat for manganese
- January 2017 – Membership vote authorizing Board to obtain State finance loan for the planning costs of the manganese treatment plant. More than 13 months after we submitted the application, the State had not yet approved the loan. Given our fully replenished reserves and excess reserves, the Board decided to abandon this loan application and pay for the rest of planning loan expenses from existing funds.
- Engineering Progress in 2018:
 - FCE and O’Connor Water jointly conducted benchmark scale and pilot study on the property
 - Once pilot system installed, ran 3 weeks of dozens of tests varying several parameters
 - FCE prepared final report
 - Shared report and results with the State (which was informally accepted)
 - Key Learnings:
 - The method of removing manganese works exceedingly well
 - The plant can be smaller than originally thought
 - 6 media filtration tanks instead of 8
 - Fall Creek Engineering started working on the final specs and design in December.

Mr. Nathenson then shared additional details. The pilot test was very successful. It consisted of an oxidation, coagulation, and filtration system that utilized sodium hypochlorite for oxidation, ferric sulfate for coagulation, and a multi-media filtration system, which consisted of three filter tanks filled with anthracite and garnet media. Tests were done for 2 to 3 hours a day over 3 calendar weeks, totaling 48 hours of tests.

The results of the pilot study indicated that the selected treatment method is very efficient at removing manganese from the raw well water. The average manganese concentration in the treated effluent was 15 µg/L, which is below the secondary MCL.

Based on the study, the recommended treatment system is the Yardney multi-media filter, consisting of six 48”-diameter filter tanks. In order to prevent overloading the municipal sewer during backwash, FCE proposed including a 5,000 backwash water storage tank. It is estimated that 3,300 gallons of backwash water may be produced per day. The detained backwash water shall then be discharged to the sewer during low-demand hours and at a rate that is acceptable to the municipal sewer authority.

Mr. Jones showed a picture of the pilot study system and a draft schematic diagram of the layout of the new manganese treatment plant on the Company’s property. The treatment process will follow

the steps:

- Water from both wells pumped to a new “raw water” 20,000 gal tank
- Two chemical pumps add sodium hypochlorite and ferric sulfate
- Water is pumped to the 6 filtration tanks
- Manganese comes out of solution in the tanks filled with anthracite and garnet filtration media
- Treated water is then pumped to the existing 100,000-gal tank and subsequently pumped through our distribution system
- Residue on media in tanks is flushed periodically and sent to a backwash water storage tank, where a pump sends this water to the sewer line at a flow rate that is acceptable to the sewer company.

Q: Does it treat calcium?

A: No

Q: Do the chemicals sodium hypochlorite and ferric sulfate stay in the water?

A: They are mostly absorbed by the media, and very little comes out in the drinking water.

Q: Will we notice a difference in flow?

A: No

Q: Are you treating water from both wells?

A: Yes

Q: Is it okay to dump this matter in the sewer since it goes to the ocean?

A: It goes to the sewage treatment plant, not the ocean or bay.

Q: What is the practical impact on the water?

A: Getting the manganese level below the secondary standard, which means odor and color.

Q: Are we going to taste the chlorine? And how it will compare with other water companies?

A: Maybe. Other companies use chloramine (we will use chlorine), and they use much more because they are treating surface water.

Q: Is the amount of chlorine regulated by the State?

A: The State wants to see chlorine in the water. The benefits outweigh the risks.

Q: Is there a test for ferric sulfate?

A: We will have a colorimeter to measure ferric sulfate, chlorine, and manganese. Iron is removed from the water along with the manganese.

Q: Is there a timeframe from the State to implement the plant?

A: The State is satisfied with our progress and plans.

Q: Have you talked to the sewer company?

A: We may have to buy more than one sewer permit. But as mentioned above, we can control the rate we discharge in the sewer. At the moment we are in talks with a consultant from the City of East Palo Alto sewer district.

Q: Will you need to increase staff?

A: We recently hired Mark Johnson (present), to assist Mr. Patisson with operations. We believe they will have an increase in hours (both are part time hourly employees), but we don't need to hire anyone else.

Q: Will the State require the Company to test the treated water for manganese?

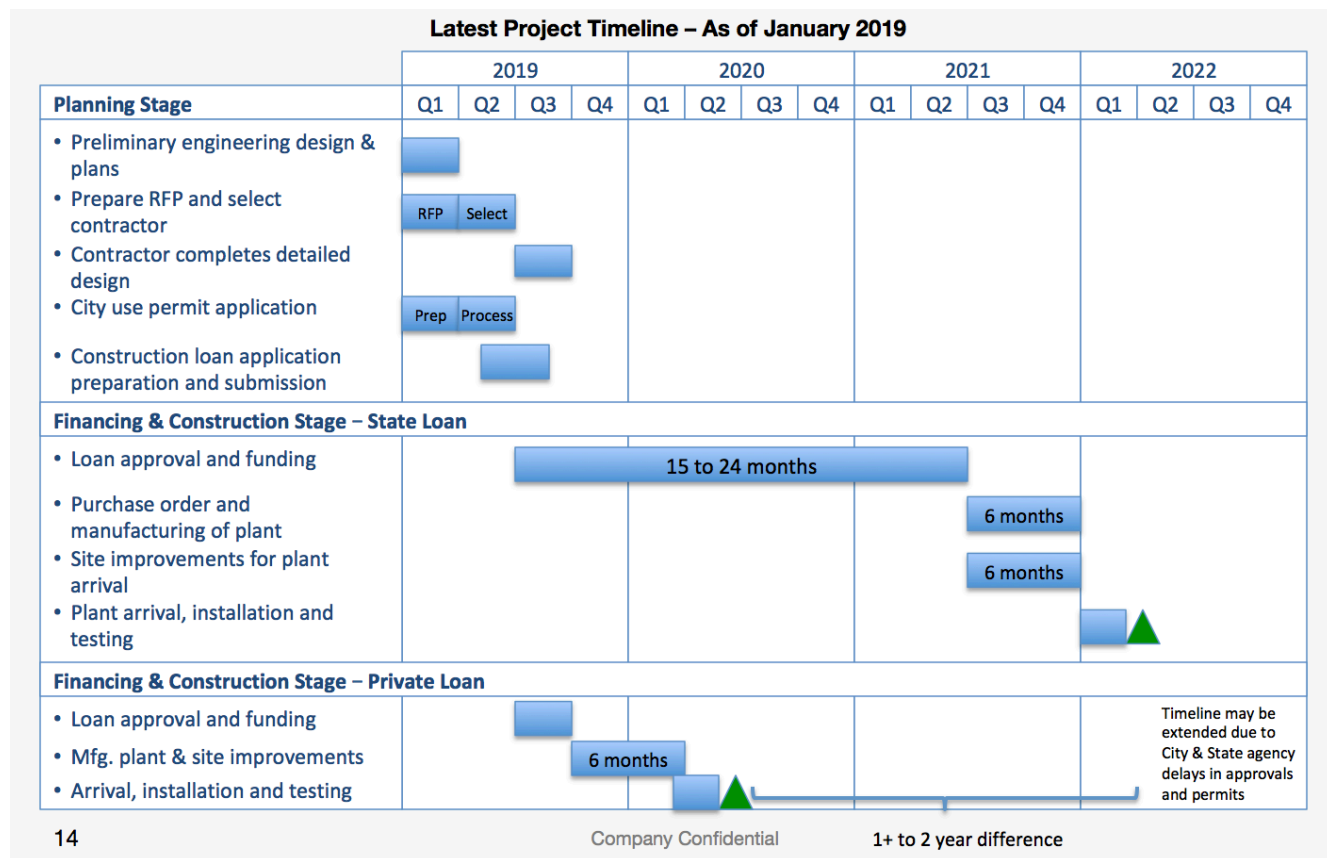
A: The State currently regulates our water from the source (wells) since we do not treat our water, but we anticipate that the State will also have us test the treated water for manganese to make sure the treatment system is working.

Q: How about the manganese accumulated in the pipes?

A: We flush the hydrants yearly to make sure to clear the pipes of sediments. We also ask

members and apartment managers to flush their pipes in their properties (after our hydrant flush) to flush sediments.

Mr. Jones presented a timeline of the manganese treatment plant project. The completion date of the project will depend on which financing option the Board selects. More details below.



Financing

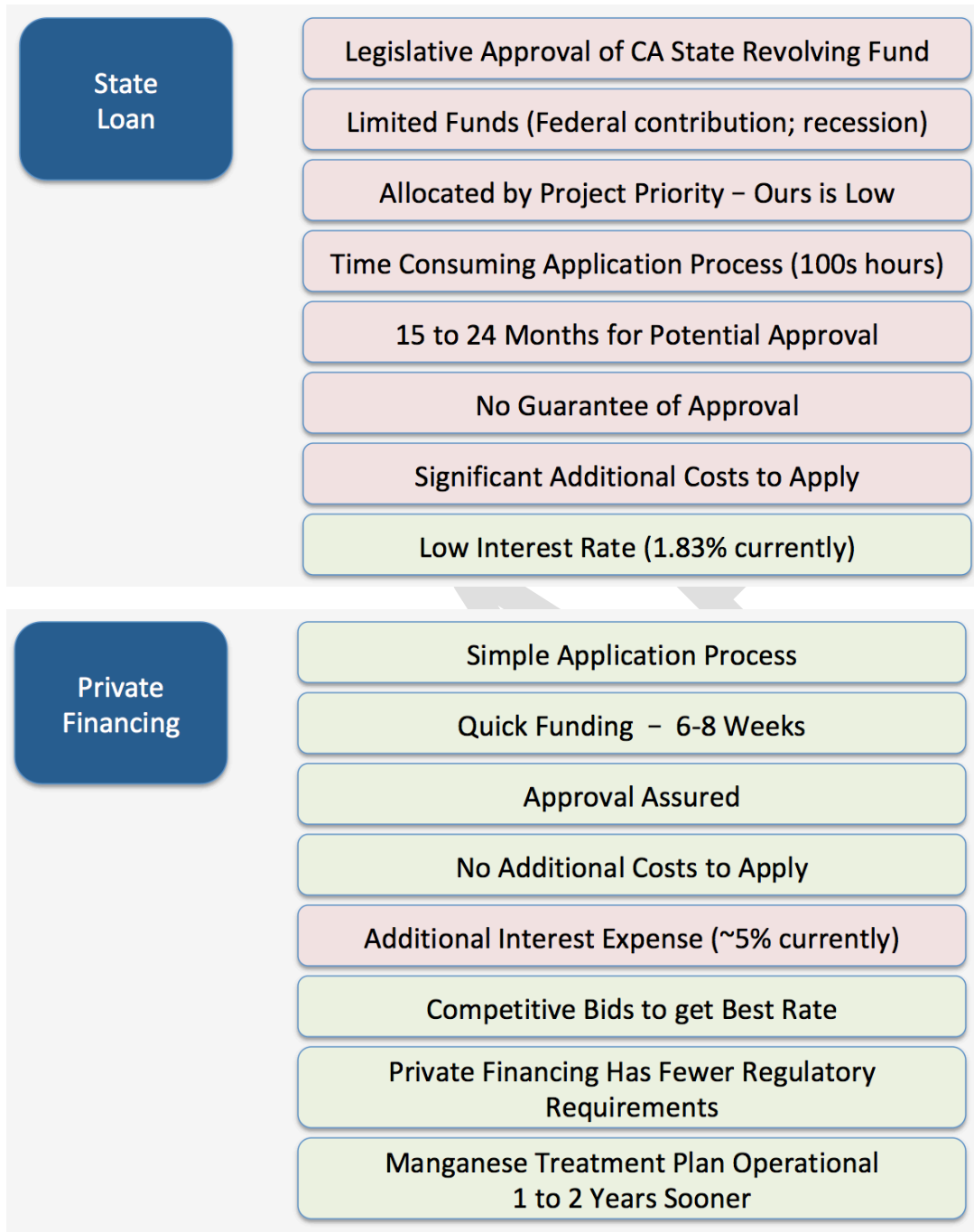
Mr. Jones shared information on the total cost of manganese treatment plant

- The total estimated cost is not finalized
- The estimate from our engineering firm that was based on vendor quotes in 2017 is \$1.12 Million
- Plant design has changed due to pilot study findings
- 3 years have passed since last figures
- Competitive RFP bidding process will be done next quarter to finalize total cost
- Net result? We do not expect the project to cost more than \$1.25M. It could be less, and we'll know by the middle of this year.

Mr. Jones presented the following financing options:

- Cash reserves: the Company does not have enough reserves to fund the treatment plant.
- Special Assessment: It would cost very roughly \$3,000 per member (much more for apartment complexes), which would be burdensome for most members.
- State Financing: Feasible

- Private Financing: Feasible
- (State Financing and Private Financing are described in more detail below.)



A competitive RFP bidding process will be conducted next quarter to finalize total cost. The Board will know the total cost in June. Only then we can get quotes with locked-in rates from several financing companies. In July, the Board will have everything needed to select the best financing option for the Company, analyzing both qualitative and quantitative factors. According to our By-Laws, financing requires 55% membership participation, which the Board was able to get through proxies and this meeting attendance. It would be extremely difficult and unlikely to get >55%

participation for a special meeting on just this topic in the summer. Therefore, the Board of Directors will propose a motion of financing. But first, are there any questions?

Q: Is it okay with the State if you decide on the private loan?

A: The State probably prefers that we not use the State Revolving Fund (SRF) for this loan. We are a low priority project – class E in a prioritization system from A to F. The State prioritizes rural and low-income communities, primary standard violations and other projects above projects to correct secondary standard violations. We are also a small water operator requesting a relatively small loan amount compared to most loan applications.

Q: Will rates go back to where they were before the 100% increase in January 2017?

A: As soon as we pay off the treatment plant loan we will consider the rates with the membership. We will have to consider costs to operate the plant, but after the loan is paid off, it is possible that we, the membership, could lower rates per the operating and capital budget process. At this moment we do not expect a major rate increase to cover the financing of the manganese treatment plant, but we'll know more later this year when the total cost of construction is known.

Q: What are the terms of the private financing companies you got quotes from?

A: We contacted six institutions to determine if private financing is feasible: Wells Fargo, First Republic, and Bank of the West (where our reserves are kept and we have existing banking relationships) do not do these types of loans. VFI does not do financing for more than 5 years for our type of project. Holman Capital and Boston Private submitted quotes with detailed terms. There is flexibility in how the financing can be structured. Payments can be monthly, quarterly, semi-annually, and annually. The term can be for 10, 15, or 20 year terms. We'll carefully evaluate terms regarding: prepayment penalties, fully amortized payments without balloon payments, etc.

Q: What is the life expectancy of the plant?

A: About 20 years. Media has to be replaced every 10 years or so.

Q: Can you offer bonds to finance this project?

A: We are a private non-profit and cannot offer bonds like a public entity does. And private placements cost money to execute and investors expect interest, too.

Q: How much do we charge compared to other companies?

A: About 50% of what surrounding water companies charge for typical usage.

Q: If we do a special assessment, will you charge each member based on the property size, like the billing? And who pays for the apartment buildings?

A: If we were to do a special assessment, we would have to look into that further and decide on a fair way to calculate the assessment due from each member, as some are single-family residences and others are large apartment complexes. In the case of apartment buildings, property owners are our Members and would pay for their apartment buildings, but we do not know if or how they might transfer the cost to their tenants, due to rent control regulations.

Member Comment: Special assessment is unfair to people who just bought or sold their properties.

Q: Why don't we spread out a special assessment, and members will pay over 10 years?

A: Because we need the entire construction costs for the project in the next two years.

Q: If the loan is below the final cost, will you do a special assessment?

A: If the Members authorize the Board to obtaining financing for up to \$1.25 million, and because the Membership just approved using "excess reserves" currently at \$209,000 (above \$500,000 target reserve levels), then if the total cost of the manganese treatment plant is more than what we can pay for via the financing and excess reserves (i.e., is more than \$1.45M to \$1.55M), then I expect the Board would come back to the Membership again as the proposed cap on the financing authorizing motion would not be enough to finance the treatment plant.

Q: Will you go back to the membership if it exceeds what the members approved?

A: Yes, but we don't think it will be necessary. I think we can make the payments work with a 10-year loan. And we can always do a 12- or 15-year loan to lower the annual amortized loan payment.

Having no further question from members, Mr. Jones presented the text of a motion on the television screen:

- To authorize the Board of Directors to obtain financing for the Company in an amount not to exceed \$1,250,000 for the planning, design, construction and all related work to complete the manganese treatment facility. The Board of Directors shall evaluate State loan and private financing options and decide on what is in the best interests of the Company. This authorization expires on December 31, 2020.
- The Board of Directors and Officers are further authorized to execute all necessary documents and agreements, and take any other actions necessary, to complete the financing for this project the Board of Directors considers to be in the best interests of the Company.

Member moved and Mr. Skinner seconded to authorize the Board of Directors to obtain financing for the Company in the terms of the motion presented by Mr. Jones above. Motion carried unanimously.

7. Election of Board Members

The Board is composed of five volunteer Directors, who have to be members of the Company (own property in the O'Connor Water district).

Members present at the meeting will be voting for up to five candidates by written ballot. Mr. Jones asked if any of the present Members wanted to be considered for the Director position; there is a line on the ballot for write-ins. No Member present volunteered to become a candidate for the Board of Directors. Proxies from Members not present were either given to the Company to vote per Board's recommendation, or given to another Member in attendance.

The 5 director candidates on the ballot were the 2018 directors who volunteered to be on the Board for 2019. Brief profiles on each director candidate were also provided.

Members who were present voted and submitted their ballots for counting. All 5 current Board members were re-elected with the following results:

Name	Votes	Percentage of Those Voting
David Jones	185.128	100%
Judy Windt	185.128	100%
Todd Rosenthal	185.128	100%
Randy Dolenec	185.128	100%
Mike Frank	185.128	100%

Mr. Jones asked the Members present if anyone would like to join the proposed Alternates to the Board: Ms. Ana Pedros, Ms. Jane Ratchye, Mr. Court Skinner, and Mr. Hossein Ashktorab. No additional Members volunteered as an alternate for 2019.

Member moved and Member seconded to approve the 2019 Alternate Slate. Carried.

8. Member Presentations and Questions

No Members had any additional presentations or questions. Members thanked the Board for their hard work and dedication to the Company. Mr. Jones thanked all Members and the meeting was adjourned.

9. Adjournment

To the Regular Meeting February 7, 2019 at Company Offices

DRAFT