

## **O'Connor Tract Cooperative Water Company**

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### **Membership Q&A from Annual Meeting January 26, 2017 and from Additional Questions Received**

**Q: Can you email the Q&A to members?**

A: Will post the Q&A on the website.

**Q: How expensive is well drilling?**

A: Approximately \$500,000

**Q: Why 100% rate increase?**

A: To cover expenses related to the State-required manganese treatment activities and maintain the minimum reserve. The Company will apply for a State reimbursement loan.

**Q: Can you explain the reimbursement loan?**

A: A reimbursement loan is a loan where the State makes a commitment to pay for eligible costs but only after the Company has made the expenditures. Therefore, the Company must have enough cash to cover two to three months' worth of the costs before the reimbursement is received.

**Q: Do we have to go through treatment? Can we submit another survey?**

A: The survey results have already been submitted to the State. It would require the State approval to conduct another survey and our experience with the completed survey is that it is highly unlikely that we would ever receive 51% of the members agreeing to accept the water as is which is what would be required to even apply for a waiver.

In 2006 the State passed additional regulations requiring that we meet the 50ppb MCL secondary standards. Both wells are above the secondary manganese levels standards.

On February 2012 the State sent a letter requiring three quarterly manganese tests, and all results came above 50 ppb. As consequence, the State issued a citation on October 2012.

After the citation, the Company formulated a Corrective Action Plan, contracted with Fall Creek Engineering, to prepare a report of treatment options and estimated costs in accordance with the regulations.

The State regulations offered two options:

- Implement treatment, or
- Apply for a waiver, which is good for nine years.

The survey and all other documents included in the information package distributed to the membership used wording from State regulations and were approved by the State.

The survey was not a vote: the regulations require treatment when there is secondary manganese levels violation, but gives the option to survey members. If 51% of members positively affirm that they will accept the water as it is (without treatment) then the Company can request a waiver for treatment. The survey was not for or against treatment, it was to see if there was support for a waiver application.

**Q: I live next door to the Company and the manganese test results from my house had levels between 250-2200 ppb. The consequences of not treating the water far outweigh the rate increase proposed in the budget.**

A: This property in particular presented levels not seen any other places. Most houses have a non-detected result or an average of 20 ppb.

Somewhere between the wells and the houses manganese must be accumulating. That is why we flush the main.

When members have dark water we ask them to flush the water, especially the hose bibs.

Although we have tested for manganese in the water from sampling stations and some houses, the State does not consider those tests in its regulatory responsibilities. The State regulations for manganese only apply to the source water (at the wells).

Because we are a member co-operative we try to help members who have concerns by testing the water from their tap. However, the Company is responsible for the water delivered to the curb stop. Members are responsible for the service line from there into the house and yard. The one exception is lead and copper in houses built during a certain period of time. Those tests must be done at the tap. However, because the water is hard, it is less likely to leach anything from the service line into the drinking water inside the house.

**Q: How about the children at the school drinking the water?**

A: The school gets Hetch-Hetchy water from the City of East Palo Alto. The Company only serves irrigation water to the school.

The State does not allow untreated drinking water at schools. O'Connor Water is not currently treated with chlorine or chloramine on a regular basis.

**Q: Is the irrigation line at the school the same that runs on the back of the properties on Oak Court and French Court?**

A: The School's irrigation system is using water from the main that runs behind the houses on Oak Court. There is a backflow preventer installed at the School's connection.

**Q: Have the new mains improved water quality?**

A: The new mains provide better water flow and are necessary as the old ones have been in place since 1921 and the one serving houses on Menalto is starting to have problems.

**Q: We've been living at the same house for 40 years and for the past two years white spots appeared in our plants and they started to die. We started irrigating with bottled water and they are doing better. My coffee machine is also constantly clogged. We have a water softener.**

A: Manganese treatment will not treat hardness.

The problem could be the added salt in the water from the softener that is killing the plants.

**Q: I would like to thank all the Board members for their work through these years. I am concerned about constant chlorination once treatment is installed. Does in-home manganese treatment work?**

A: The Company has to treat manganese at the source. Chlorine can be removed with in-home filtration.

**Member Comment about the proposed rate increase:**

Rates are cheap. There were times when members paid "zero".

Thirty years ago we had a significant rate increase to install the tank which cost \$150,000.

We are still paying way less than our neighbors served by other water companies.

Once the treatment is paid, and there is no other requirement from the State, the rates don't have to keep increasing.

**Q: What is the "operations and maintenance contract" item at \$40,000 itemized in the budget? Can you also explain the salary increase?**

A: We believe there will be a significant increase in operations and administrative work load with the manganese treatment planning and construction.

We also need a back-up water operator. We are hoping to share an employee with another agency. It is difficult to hire a part-time, State licensed water-operator.

**Q: Can you explain the budget item for meters?**

A: All apartments are metered and houses will be metered in the near future.

The meter expenses in the 2017 Budget are to replace existing meters on E. O'Keefe St.

**Q: How much to install meters in all houses?**

A: About \$350,000

**Q: If in five years we meet all expenses, will rates come down?**

A: Possibly.

**Q: What is the period of time to pay the loan?**

A: We will know the amortization after the loan application is completed. State interest rates are very low, about 2%.

**Q: What does approving the Budget authorize?**

A: Three things:

- Rate increase
- Loan
- Operations

This budget does not commit to a specific treatment plan.

**Q: What happens if we vote against the budget?**

A: We will have to close and be taken over by another agency.

**Q: The Company has one acre of land. Can we sell part of it to finance the treatment?**

A: No, we use all the land for operations.

**Q: Does the rate increase raise the risks of merging?**

A: It does not.

However, the State encourages small water companies to merge.

**Q: I would like more information before deciding on consolidation or keeping the co-op. What are your comments about possible merger? Is it possible to have an informational meeting?**

A: We are still gathering information to share with members. No decision will be made without a vote from the membership.

Merging will provide a more certain future and more resources.

There is also an option of a long term lease, like the one between the City of East Palo Alto and American Water.

**Q: Do we have connections with Menlo Park?**

A: We have two emergency connections: one with Menlo Park and another with East Palo Alto

**Q: Do you have information about water shortages during the drought?**

A: Our well is one of the best in the State, it can pump up to 1,000 gallons per minute.

In the 1930s Palo Alto used ground water and the levels at our wells were 120' down. In the 1960s Palo Alto stopped using ground water and by 1990 water levels were 30' down. It took a long time to recharge to the 30' level. During the drought the levels were at 35'. We pumped less water because members saved water.

The basin is not stressed. We are not critically stressed, even if East Palo Alto taps into it by drilling a well, we do not believe it will take the levels down below our pump which is at approximately 140'.

**Q: Does having the well protect the source?**

A: Yes

**Q: Will the rates go down once treatment is installed?**

We do not know

**Q: I own a house on Oak Court but do not live there and don't know anybody within the district. Did not send my proxy because I want to vote with the majority of the membership.**

Returning your proxy does accomplish that.

*"The annual meeting of the members of the O'Connor Tract Co-Operative Water Company is to be held at the Laurel Upper Campus School, 275 Elliott Drive, Menlo Park, at 7:30 p.m. on Thursday, January 26, 2017. If you are unable to attend, please sign this proxy and insert the name of someone who will attend. Or if you cannot attend and wish to vote according to the recommendations of the current board, you may insert the name of Ana Pedreiro, Secretary of the Company, in the blank space and return it to the address above."*

**Q: The 100% rate increase is unprecedented. Just because rates are still lower than other companies, it doesn't mean the board can simply increase them by 100%. It should have been a gradual increase.**

A: We had proposed a gradual increase two years ago. However, due to conservation, the rate increase did not result in the increased revenue we had been counting on. At the time we also thought there was a possibility of avoiding manganese treatment with a waiver. However, the membership did not support that so we do need to move ahead with the treatment plant planning. We are intending to get a loan from the State to prevent further sharp increases.

**Q: Will we receive more information and if there will be additional membership meetings?**

A: We are gathering more information about the merger/consolidation options. When we have that we intend to hold membership meetings to discuss it.

**Q: I live by myself and do not spend water at all. Before another rate increase I want the Board to install meters.**

A: Meters will have to be installed within the next few years. We cannot guarantee that it will be before another rate increase.

**Q: The Board should have a summary of the meeting with the annual bill so members who did not attend would know what happened and why the rate increase.**

A: We plan to put the Q&A from the annual meeting and from additional questions on the website by the middle of February [www.oconnorwater.org/members](http://www.oconnorwater.org/members). If you do not have internet access, you can call the office and we will mail that to you.

**Q: What does the Board know about merger/consolidation at this time?**

A: When the results of the member survey whether to apply for a waiver or not showed that we could not apply for a waiver, we sent those results to State regulators. In their response, they stated that they “strongly recommended” that we merge with a neighboring water agency. The State has a policy of urging consolidation of small water systems into larger water systems. It is easier for the State to regulate fewer districts and not to have to deal with a lot of small districts. This is their general policy. They are not necessarily going to force us to do so as long as we continue on the current path of meeting the regulatory requirements. Therefore, we are continuing with the engineering study to evaluate treatment options.

Our investigation into merger/consolidation so far has raised these considerations:

- A consolidation or merger would not necessarily avoid building a treatment plant. It might mean more rate increases. If the entity we merged with was willing to blend our water with the treated surface water from the Hetch-Hetchy system, they could avoid treatment. But they might not want to do that.
- Would the process of merging with a municipal system take a long time but not ultimately be successful? Then O’Connor Water would be back at square one.
- If we merge with an Investor Owned Utility (IOU) rather than a municipal system, rates might go up even more than charged by municipal systems. IOU rates are regulated by the California Public Utilities Commission (CPUC).
- Will it be possible to merge since the O’Connor district encompasses parts of two cities, Menlo Park and East Palo Alto? A municipal water district might not want to serve an area partly outside its boundaries. The local IOU doesn’t currently have any consumers in East Palo Alto. Would they want to take that on?
- The local IOU does have an excellent reputation for customer service and system maintenance. Their staff resources would relieve O’Connor of finding qualified staff.