

O'Connor Tract Co-Operative Water Co.
 Minutes of the Annual Meeting of the Members
 Held Live Via a Zoom Videoconference Call
 7:30pm Thursday January 25, 2024

1. Call to Order

Mr. Jones called the meeting to order at 7:33 pm.

2. Introductions

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

3. Roll Call

<p><u>Board Directors (Present):</u> David Jones Judy Windt Mike Frank Ron Garcia Todd Rosenthal</p> <p><u>Board Alternates (Present):</u> Ana Pedros Jane Ratchye Ruggero Castagnetti Court Skinner Gary Westby</p> <p><u>Board Alternates (Absent):</u> Sagar Savla Satish Mummareddy Adela Mazzon</p>	<p><u>Staff (Present):</u> Ana Pedreiro (Secretary/Business Operations) Chad Plantenberg (Water Operator) Manny Nathenson (On-call Water Operator)</p> <p><u>Staff (Absent):</u> Rich Pattison Caleb Hrabal</p>	<p><u>Members:</u> 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.</p> <p>The official Minutes do include the names of directors, alternates, staff and any members who made statements or took actions in the Meeting. Any Member, resident in our service area, or government elected official may obtain a complete copy of the Minutes upon written request.</p>
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Quorum	Acres	%
Total Company Acreage ¹	80.813	100%
Quorum needed for this meeting ²	20.20	25%
Proxies Received	20.7601	25.69%
In-Person Representation	4.8770	6.03%
Total Quorum	25.6371	31.72%

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

² Annual meeting requires 25% quorum.

Note that between attendees and proxies received in advance of the meeting by the Company, the Company had a quorum according to our bylaws to conduct business at this meeting.

4. Approval of the Minutes

The 2024 Minutes were emailed to attendees, and posted on the Company's website; members were asked to read them before attending the meeting.

Ms. Windt moved, and Mr. Rosenthal seconded that the minutes of the Annual Meeting of January 24, 2024, be approved as submitted. Carried.

5. Operations & Planning Reports

a. Highlights of last year's operations

Mr. Jones briefly explained the Company's water operations and business operations, and thanked the staff, volunteer board, and alternates for their service to the Company.

b. Annual Water Quality Report for Information

Mr. Nathenson explained the following:

- The Company's water is hard.
- Bacteriological tests are run on three samples a month. There were no positive samples in 2024.
- The Company tests for many other chemicals but they are not included in this report if they are not required by the State and the chemical is not detected.
- Water from Well #1 and Well #2 is above the secondary standard for manganese. Since the treatment plant started operating in January 2024, the water delivered to members has manganese levels below the secondary standard.
- Lead and Copper: Sampled and tested in 2022. Several years ago, we did a materials inventory and selected ten Tier 1 sites. Of these 10 sites, the 90th percentile (ninth highest) value for lead was 7 ppb, and for copper was 0.16 ppm. The lead Action Level (the concentration of a contaminant which, if exceeded, triggers treatment or other requirements which a water system must follow) is 15 ppb, and the copper action level is 1.3 ppm.
- We do our own manganese and chlorine residual testing, but also have a 3rd party lab test some samples as required by the State.

Report on Manganese Treatment Plant

- Our new manganese treatment plant was put into operation in January of 2024
- It operated smoothly during the 30-Day Commissioning Period (1/24/24 - 2/23/24)
- It continues to operate smoothly, adhering to the commissioning plan requirements
- The State's Division of Drinking Water (DDW) is yet to issue an amended water permit. Until then, we are obligated to continue to perform additional water tests performed by a licensed third-party laboratory

c. Current Situation (Jones, Plantenberg, and Nathenson)

- Treated water is stored in the 100,000-gallon storage tank and distributed to all of us
- At the storage tank, manganese is below the secondary standard (in fact, not detected in 3rd-party lab results)
- The distribution system was also flushed and manganese levels throughout the system are below the secondary standard
- Chlorine levels – a byproduct of the treatment method – are within acceptable levels

- Non-zero – so, detectable with water tests, but well below the levels used by water systems and any State requirements to sanitize the water
- Should generally be at levels not discernible by taste or smell

Member: Do we test for PFAS?

A: We are not required by the State to test for PFAS

Mr. Garcia: What determines which house is tested for lead and copper? Can we request our houses to be tested too?

A: The houses tested are listed as containing lead solder.

The Company is required to test every three years. Members who wish to test for lead and copper are welcome to contact the company office to have the tests done at the same time as the required house tests. Members are responsible to pay for their own tests.

d. Meter Installation

Background

- State law requires all water connections to have a meter by the beginning of 2032
- As of the beginning of 2024, we had 313 unmetered connections
- We've conducted a thorough meter vendor, technology, and cost analysis and have selected Badger as the manufacturer with cellular technology that transmits the meter readings automatically
- We plan to install ~40 meters per year over the 8 years we have, spreading out the work and the cost over time.

Current Situation

- Due to initial delays in receiving our first order of meters from Badger, we've installed 22 new smart meters in 2024.
- We are now on track to install roughly 40 per year to meet the requirement by 2032

Benefits of Smart Meters

- Members with smart meters have online access to their usage information through a secure website
- Members can use this access to understand and manage their usage
- Members and the Company can also identify leaks

For those with a new smart meter, **account setup instructions** are:

- Go to: eyeonwater.com
- You'll need your account number to initially login and create an account – it's on your bill or just contact the office for your account number.

6. Administrative Reports

a. Mr. Jones presented the 2024 Audit Report.

Mr. Jones 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.

Members had no questions regarding the audit report.

Mr. Garcia moved, and Mr. Frank seconded, to accept the 2024 Auditors Report as submitted. Carried.

b. Mr. Jones presented the 2025 Operating and Capital Budget with comparative data from 2023 and 2024 and a four-year projection (for context only):

He explained the following:

- To meet the needs of the Company, this budget includes a targeted water rate increase of 10 percent overall.
- We've only raised water rates a total of 25 percentage points over the previous 7 years, while labor and operating expenses have increased over those years, and continue to increase.
- We have higher expenses (higher than expected last year):
 - Operations & Maintenance expense (manganese treatment plant) – ~\$8,000
 - Utilities - electricity (for the treatment plant) – ~8,000
 - 2% drop in metered account total usage (and corresponding revenues)
 - Minor increases/changes in other line items
- For these reasons, the 10% overall increase in water rates is necessary to pay for the anticipated expenses of the water company this year.

Member: Is there a shortage of water in the wells?

A: We do not have a problem of water shortage even during drought. But we do comply with State mandates during drought season.

Member: Do we use East Palo Alto water?

A: Yes, we may use EPA water in case of emergencies such as pump break, power outage, and main break.

Members had no questions regarding the 2025 Budget

Mr. Frank moved, and Mr. Rosenthal seconded to approve the 2025 Operations and Capital Budget. Carried.

c. New Water Rate Structure and Water Rates for Metered Connections

Background

- Historically for decades, we have had completely different rate structures for 2 types of connections:
 - metered (100% usage based)
 - unmetered (not directly usage based)

- During an 8-year transition period, the unmetered accounts need to get meters (~35 connections per year) to spread out the costs and to minimize rate increases from the cost of installing meters.
- Some members who get meters early on could be negatively affected up to 7 years before the last set of members receive their meters
- We believe our transition period rate structure should take this into account and avoid as much as possible extreme unfairness from going first versus going last. Yet, our rate structures need to be easy to understand.
- By 2032, all connections will be metered, so our water rate structure and levels can then be adjusted again to whatever makes the most sense at the time, without the timing-related fairness issue just explained for the transition period.

End Goal

- We have an end goal in mind for after the transition period. The 2032 rate structure:
 - Tiered meter fee starting at \$30/month (for 5/8" and 3/4" meters)
 - Results in roughly a third of revenues being fixed (not dependent on water usage) – one of our goals
 - All customers have the same usage rate (\$/CCF)

Why?

- Over 90% of our costs are fixed. <10% of our costs are variable.
- But the State prefers a higher percentage of water revenues to be variable to encourage water conservation.
- However, the higher the variable percentage, the more susceptible our revenues will be to variable water usage (i.e., if everyone uses less water one year, we have to raise rates the next year)

Benefits

- This goal brings us in line with water rate structures of virtually all other water systems
- Our usage rate will be lower than the surrounding systems because we don't pay for Hetch Hetchy water from the mountains. We simply pump water from the ground.
- This strikes a balance between ~35% fixed and reliable revenue each year, while ~65% will be variable, encouraging conservation and fairness in paying for what you consume

Seven-Year Transition Period

- During the transition period, we will have three groups:
 1. Historically-metered accounts (37 accounts)
 2. Historically-unmetered accounts (313 accounts at the beginning of 2024; 291 today; and shrinking over time)
 3. Newly-metered accounts (22 as of the end of 2024, plus ~35/year thereafter, gradually increasing to 313 by 2032)

How to get to the end goal, being as fair and balanced as possible with the information we have at hand:

Our Process

- We formed a Water Rate Subcommittee to explore and analyze rate structures from late 2023 through 2024

- Many rate structures and alternatives were considered
- We evaluated:
 - a. The impact to these 3 very different groups of members
 - b. The impact at the individual account-level within these groups
- With the following guiding principles:
 - a. We need to introduce a fixed monthly fee (a meter fee), like all surrounding water systems
 - b. The meter fee increases as the size of the service connection (and meter) increases. There's a standard ratio or increase used by most water systems (from the American Water Works Association), and we have used that ratio here and follow that recommendation. Note that most water systems set the same fee for 5/8" and 3/4" (what most single-family residential properties have)
 - c. We believe there should be a single water usage "volumetric rate" applied to all connections. We do not think we should have a different water usage rate for single-family residences, multi-family residences, irrigation, or commercial entities.
 - d. While some nearby water systems have tiered water usage rates to encourage conservation (i.e., where you pay more per unit of water as your usage increases beyond a certain threshold), in the interests of simplicity, we do not wish to use that approach.

To avoid shocking increases from introducing a monthly meter fee to our target end state of meter fees starting at \$30/month, we are planning to introduce meter fees gradually over the next 6 years.

- Each year with the given meter fee revenues, we set the water usage rate (volumetric rate) at the level that generates the required revenues for the year.
- The higher the meter fee over time, the lower the volumetric rate.

	Monthly Meter Fee					
Meter Size	2025	2026	2027	2028	2029	2030
5/8"	\$ 5.00	\$ 10.00	\$ 15.00	\$ 20.00	\$ 25.00	\$ 30.00
3/4"	\$ 5.00	\$ 10.00	\$ 15.00	\$ 20.00	\$ 25.00	\$ 30.00
1"	\$ 12.50	\$ 25.00	\$ 37.50	\$ 50.00	\$ 62.50	\$ 75.00
1-1/2"	\$ 25.00	\$ 50.00	\$ 75.00	\$ 100.00	\$ 125.00	\$ 150.00
2"	\$ 40.00	\$ 80.00	\$ 120.00	\$ 160.00	\$ 200.00	\$ 240.00
3"	\$ 87.50	\$ 175.00	\$ 262.50	\$ 350.00	\$ 437.50	\$ 525.00

As part of these water rate changes, we've started implementing a rate re-alignment between historically metered accounts and historically unmetered accounts – so that these groups' revenues more closely match their overall usage.

- Metered accounts' share of water deliveries is more than their share of revenues for the last several years

- When setting the water usage “volumetric rate” for 2025, we’ve started the process of improving the balance between overall percent of water used to percent of revenues received
- As a result this year, historically metered accounts water bills will go up in aggregate slightly more than unmetered accounts
 - To close this gap gradually
 - In the interest of fairness

	Fraction of Total	
	Metered Account Usage	Metered Account Revenue
2020	54%	53%
2021	59%	56%
2022	67%	58%
2023	64%	54%
2024	60%	55%
5-yr Ave	61%	55%

- With a 10% overall increase in water rates necessary to pay the anticipated expenses of the water company this year.
- The impact on the 3 segments of our Members will be:
 - 37 historically metered accounts – an average increase of 14% over last year, with changes ranging from 7% to 20% (estimates assume the same usage as last year)
 - 22 newly metered accounts – specific impacts are unknown since we don’t know their water usage. Some bills will go up, some will go down. (Average likely to go up)
 - 291 remaining unmetered accounts – rate structure remains unchanged for 2025. Their annual bills will increase 5%.
- Billing Frequency
 The Board determined that billing frequency will be based on the meter size:
 - Meters 1-1/2” or larger will be billed monthly
 - Meters 1” or smaller will be billed quarterly, at the end of each quarter

2025 Proposed Water Rates:

	2024	2025	Change
Rate per Acre (per Month)	\$94.34	\$99.06	5%
Rate per House (per Month)	\$47.12	\$49.48	5%
Rate per Pool (per Month)	\$5.18	\$5.44	5%
Rate per Usage Unit (Rate per 100 Cubic Feet)	\$4.54	\$4.80	5.7%
Turn Off/On	\$150.00	\$150.00	0%
Connection Fee	\$1,000.00	\$1,000.00	0%
Monthly Meter Fee (based on size of meter)			
5/8"		\$5.00	
3/4"		\$5.00	
1"		\$12.50	
1-1/2"		\$25.00	
2"		\$40.00	
3"		\$87.50	

With the new rate structure and proposed rates, our company’s water is still much less than half the cost of surrounding water companies.

Monthly Bill for a Connection with a 3/4" Meter					
Usage (CCF/mo)	O'Connor	Palo Alto	Menlo Park	Cal Water	EPA
4	\$24	\$58	\$63	\$71	\$61
7	\$39	\$88	\$88	\$87	\$87
9	\$48	\$113	\$107	\$108	\$103
14	\$72	\$177	\$160	\$160	\$145
21	\$106	\$265	\$244	\$240	\$204

This is because our volumetric rate and our meter fees are much lower than those of surrounding water companies.

Volumetric Rates (Per Hundred Cubic Feet (CCF))										
	O'Connor		Palo Alto		Menlo Park		Cal Water		EPA	
Tier	Usage	Rate	Usage	Rate	Usage	Rate	Usage	Rate	Usage	Rate
1	all	\$4.80	0-6	\$8.66	0-6	\$7.72	0-6	\$3.17	all	\$8.39
2			over 6	\$12.63	7-12	\$9.73	7-18	\$10.40		
3					over 12	\$11.89	19-35	\$12.80		
4							over 35	\$18.83		

Monthly Service Charges (Per Meter per Month)					
Meter Size	O'Connor	Palo Alto	Menlo Park	Cal Water	EPA
5/8"	\$5.00	\$23.62	\$31.93	\$36.85	\$27.79
3/4"	\$5.00	\$23.62	\$31.93	\$58.07	\$27.79

Member: Why don't we start reading all the meters only after all meters are installed, and keep the fixed rate until then?

A: Per State mandate once a meter is installed on a connection, we have up to a year to begin charging at least part of the water bill based on water usage.

Member: What is the advantage to volunteer having a meter installed earlier?

A: You can monitor your water usage and become aware of your water consumption in preparation for when the usage-based billing begins at the beginning of the following year. You can volunteer to have it installed earlier, but you cannot volunteer to have it installed last. The operators are installing meters by street to facilitate their operations.

Member: How will the new rates impact the school?

A: We provide only irrigation water for the school. It has a 2" meter and it will be billed monthly for it. The school water usage varies a lot between summer and winter months.

Member: The more water usage increases [in aggregate], the less water rates will increase?

A: Yes, and using less water [in aggregate], the more water rates will increase.

Member: By the end of the seven years, once the meter fees are completely implemented, we will be paying a fixed rate just like we are now, defeating the purpose of saving water.

A: We need revenues from a fixed fee like meter fees so that a portion of our revenues are predictable. All water companies charge this type of fee. Right now, 55% of our revenue is variable based on water usage. At the end of the seven-year transition period when all connections will have meters, approximately 65% of our revenue will be variable, meaning that only 1/3 of our revenue will come from a fixed rate. The difference is that today, 37 metered accounts out of 350 are paying usage-based variable amounts, and in 2032, all 350 connections will be paying some fixed and some variable charges.

Member: What is a meter replacement life? And is this fixed rate to cover for replacements?

A: A meter lasts between 15-20 years. The fixed rate revenue is to cover present expenditures. We will replace meters as they need to be replaced, the costs will be spread out over time, and the annual cost will be less than what we are paying these 7+ years to install 313 new meters.

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. Proxies from Members not present were either given to the Company to vote per Board's recommendation or given to another Member in attendance.

Five current directors have volunteered to serve on the Board in 2025: David Jones, Judy Windt, Mike Frank, Ron Garcia, and Todd Rosenthal. Brief profiles on each director candidate were also provided.

The bylaws require voting by ballot. The Board decided to utilize an email-based ballot as the written ballot method for the election of Board members (given this is a virtual videoconference meeting). Members voted by replying to the ballot email sent to them once they registered for the meeting.

The Board-recommended slate was elected as directors for 2025, with the following results:

Name	Votes	Percentage of Those Voting
David Jones	80.4044	100%
Judy Windt	79.4844	100%
Mike Frank	79.4044	100%
Todd Rosenthal	79.4844	100%
Ron Garcia	78.4444	100%

Mr. Jones presented the current Alternates: Ruggero Castagnetti, Ana Pedros, Jane Ratchye, Sagar Savla, Gary Westby, Satish Mummareddy, and Court Skinner, who all agreed to stay on as Alternates for 2025. Mr. Jagan Subbiah volunteered to serve as an Alternate in 2025.

8. Member Presentation and Questions:

There were no other questions, and the meeting was adjourned at approximately 9:30 pm. Members congratulated and thanked Mr. Jones and the Board for all the work done.

9. Adjournment

To the Regular Meeting February 13, 2025, by Zoom teleconference.

DRAFT