

MINUTES
Forest Lakes Mutual Water Company
Board of Directors Meeting On-line Meeting
August 9, 2022 7:00 p.m.
Public Session
910 Fern Avenue, Felton CA

This meeting was conducted by video/teleconference. Shareholders are welcome to attend all public session meetings via Zoom.

CONVENE MEETING/ROLL CALL: The meeting was called to order at 7:02 p.m. by Pres. P. Gonda. Attending: Directors Dennis, Gonda, Kelly, Maskolunas, Mobley, West. Absent with notice: Dir. Wade. Staff: General Manager Cortez. Shareholders: M. Fabian, C. Barauskas, M. Santangelo, S. Hector, N. Packer, C. Clement, S. Reimer

ADDITIONS/DELETIONS TO AGENDA: An action/discussion item for authorization to request a modification of the SBA loan for the Scenic repair.

SHAREHOLDER/PUBLIC COMMENTS:

M. Fabian asked about insurance on the tanks. It was noted that this item is on the agenda. C. Barauskas asked that the reservoir be kept open as long as possible.

APPROVAL OF MINUTES:

- July 12, 2022 public session meeting: It was moved, seconded and passed to approve the minutes of the July 12, 2022 public meeting.

COMPANY REPORTS:

- Financial Reports: G.M. Cortez provided the financial report for July, 2022, noting the following: Cash on hand 7/1/22, 849,547.41; cash on hand 7/31/22, \$832,436.65. Income through 7/31/22: 679,434.29. Expenses through 7/31/22: 399,313.35. Net income through 7/31/22: \$280,120.94. Cortez noted that the ending cash on hand total includes \$71,549 SBA Loan Designated funds; \$174,899.39 are State required O&M reserves; \$30,498.14 designated for source development reserves; \$78,028.96 for capital improvement reserves; and \$477,461.96 for current operations funds. There was one new overage, related to repairs on one of the trucks.

Motion to approve the financial report was seconded and passed.

- Operations Report: G.M. Cortez provided the operations report and production data for July, 2022 as follows: System production for all wells was 1,108,737 gal, up from June's 1,073,115 gal. There were 2 system leaks and 1 customer service line break. There were 3 excessive users, and 14 users over 200 gpd. System average was 88 gpd. Loss rate was 14% up from 9% prior month, possibly partly caused by the backwash tests. During the month, staff worked on routine maintenance, limbing and brush removal; installed Private Road signs at all required locations; rebuilt stairs to Tank 2; prepared for Sanitary Survey by SWRCB in August. Capital improvements: Parts and earthquake bracing for the 2nd new tank at the corp yard were purchased. Tank suppliers were contacted to replace the Scenic tanks. Quotes were requested for welded steel, bolted steel, and poly. The County was contacted re: permitting required or the placement of those tanks. Quarry Road Culvert Replacement: Cortez met with RCD, Waterways Consulting and CDFW to review the site. Awaiting approval. 3 contractors present for site visit and will submit bids. RCD funding covers permitting. Grant funding has been increased to \$65,000; this will also cover construction observation by the engineers.

ADVISORY COMMITTEE REPORTS:

- Water Conservation and Water Committee: No report
- Recreation Committee: No report
- HR Committee: Employee BBQ lunch date set.
- Road & Safety Committee: No report
- Rules Committee: No report
- Finance Committee: See under New Business

- Strategic Planning Committee: No report
- Community Fire Prevention Committee: FireWise is working on gathering data, and would like to have a request go out on FLMWC email to encourage reporting of shareholder actions to reduce fire danger/increase safety.

NEW BUSINESS:

- **Discussion/Action item:** Revisit prior Board discussion and agreement on considering alternative ways to insure critical infrastructure, and creation of a Hazard Mitigation Plan (Dir. Maskolunas):

Dir. Gonda prefaced the discussion by noting that the web links Dir. Maskolunas had forwarded to the Board referenced “special districts” but that FLMWC is not a “special district.” He noted that CalMutual provides insurance through JPRIMA. He observed that the requested discussion/action item contains 2 distinct issues: Insurance and hazard mitigation, and that there has been discussion in the June and July meetings about developing a critical infrastructure assessment.

Dir. Maskolunas said she wants to be sure we know that we are insurable.

General Manager Cortez described efforts to look into property coverage for tanks. In 2015, FLMWC’s insurance agent indicated that no property coverage was available for tanks spread across 616 acres on property owned by others. No further action was taken. This year, Cortez again submitted a request to our insurance agent, who shopped the coverage request to many underwriters, all of whom were unwilling to write coverage due to tank locations and the high fire risk. The agent said that if he were able to find an underwriter, the cost would likely be \$75,000 or more, but ultimately he could not find an underwriter.

Cortez next contacted CalMutual regarding Joint Powers Risk and Insurance Management Authority [JPRIMA] and was referred to George Pappas, Senior V.P. of Allied Public Risks, an affiliate of CalMutual and JPRIMA which manages insurance applications for JPRIMA. After email discussion of all tank sizes, locations, construction and costs, Mr. Pappas’s final email stated “I pulled your wildfire scores and unfortunately you are surrounded by some very high wildfire areas. With that said, we can consider the property but it would be on an ACV [“actual cash value”] basis (meaning the amount to replace MINUS depreciation), a high property deductible (\$25K), and it will be very expensive (thousands).”

Staff also called Scotts Valley Water. Its coverage is through JPIA which is made up of 79% city agencies, 5% special districts and 16% joint powers of attorney which could include public agencies which have joined with mutual water companies as outlined in SB656. SVW referred us to Mt. Hermon, a privately owned water company, which joined with other not-for-profit companies to form its own insurance company. There are dangers associated with this type of risk-retention self insurance. Such programs are funded by their participants. If you form a new company, the outlay would be significant; some references indicate \$100,000. The company is formed by entities with similar risk exposure. A personal guarantee is generally required. Should there be losses that exceed funds available in the pool, all participants must contribute the additional funds required to cover the claim, regardless of whose claim it is. Both the amount of coverage and potential costs are unknown.

We are awaiting information from SLVWD. In reviewing the information available, it appears that the damage to SLVWD tanks caused by the 2020 CZU fire will be paid for by a combination of loan and FEMA funding, which would seem to indicate that they were not covered by insurance at the time, or that insurance fell far short of what was needed. In summary: At no time have FLMWC tanks been covered by property insurance, although all our infrastructure is covered by liability insurance. Standard insurance carriers will not cover the tanks due to their locations and fire risk. JPRIMA might provide coverage, at high cost with high deductible, but will not cover actual replacement cost. Some other agencies have joined together to form insurance companies. In order for FLMWC to do that, it would have to affiliate with a public agency willing to form a new insurance company. It does not appear that an individual mutual water company can join a JPIA without becoming part of a JPA. There are potential risks inherent in joint agency-created insurance companies.

Cortez also noted that should tanks/water infrastructure be destroyed due to natural disaster, a state of emergency would be declared and CALOES and FEMA would step in with funding, which is what happened with SLVWD.

With respect to hazard mitigation, at the July Board meeting it was decided that a risk assessment would be completed prior to making any decision regarding insurance. FLMWC staff is to complete a list of all infrastructure, age when available, cost, life expectancy and cost to replace. Staff will complete all aspects in-house to the extent possible, then discuss outsourcing as needed to complete the task. Timeline as estimated in July to be August or September Board meeting.

Questions after the presentation of the above information included the following:

Q: Would property damage insurance cover all disasters?

A: Most insurance excludes quakes and subsidence.

Q: How can we improve our insurability?

A: Underwriters use the address of the exact location, independent of factors like brush clearance.

Q: What would be the cost to reroute water, if one tank were lost?

A: We will look into that.

Q: Is there a timeline to figure out costs of insuring?

A: Insurance costs need to be evaluated in the context of FLMWC's 2023 budget and assessments.

Dir. Mobley moved to table further discussion on the topic until we have the risk assessment, said assessment to include cost of re-routing water if needed as well as looking at all manner of options in the context of risk assessment, before proceeding further. Motion was seconded. There were five "aye" votes and one "no." Motion to table the discussion pending risk assessment passed. Directors Gonda and Maskolunas agreed to work on a hazard mitigation plan.

- **Discussion/Action item:** Procedures for drafting FLMWC policies: Dir. Gonda noted that the Rules Committee has several outstanding assignments and might need to ask for help in completing them. Dir. Mobley has worked on revising the conservation stages and excessive use policies, and said they now just need refining language. Dir. Wade has worked on a hazardous tree policy; Dir. Gonda said he would assist with that, and will f/u with Dirs. Wade and Mobley.
- **Discussion/Action item:** FLMWC investment policy: Dir. Gonda stated that the draft investment policy submitted for consideration was patterned after other agencies. It has a conservative focus with the goals of preserving the safety of principal, maintaining liquidity, and maximizing ROI. In the past FLMWC has used CD's but in the current environment, rates are very low. A motion to adopt the presented investment policy was seconded and passed.
- **Discussion/Action item:** Revised MOU for FLFSa: Dir. Maskolunas mentioned some of the things FLFSa would like to achieve in working with FLMWC. There was discussion, in which some questions were raised, such as the provision in the MOU that other groups could join the MOU w/o FLMWC consent; the co-location of FLFSa equipment on FLMWC property; and the potential conflict of 2 Board members with respect to the relationship between FLFSa and FLMWC. It being our practice to have Counsel look at such agreements, a motion was made to refer the document to Counsel for legal review, cost NTE \$2000. The motion was seconded and passed.
- **Discussion/Action item:** Review/approve bids for Scenic slide repair: General Manager Cortez explained the received bids. MTM is the apparent low bidder, with the caveat that cost could increase if the piling depth needs to increase. The SBA loan will cover \$73,000 of the cost, leaving a \$347,000 deficit exclusive of any change orders. Cortez outlined the following options: [1] Reject all bids and request re-bids at later date in hope prices might drop. [2] Provisionally accept the low bid and request modification of the SBA loan. As approval would take 60 days or more, the result would likely mean that the project could not be completed this summer and would have to be re-bid next year. [3] Complete the project and request additional funds upon completion, a risk as funds are not guaranteed. [4] Request SBA to re-allocate funds in the existing loan, moving Ferrari construction funds to this project. [4] Seek other outside funding. Cortez recommended provisional approval of the low bid, pending board-approved spending source. Discussion ensued. Cortez clarified that if the project is approved, it would be completed by 10/15. There was a question as to whether the road should be repaired. Several directors pointed out the critical importance of this road to the community, which is not only an alternate route to Hwy 9 but also out to Empire Grade via UCSC. There is a low probability that an outside agency, such as CalFire, will help defray costs. SBA could increase funds but not the entire amount needed. FLMWC could draw down reserves, and/or use our credit line. There was a motion to accept the MTM bid and request additional SBA funds and a modification to re-allocate existing SBA funds for Ferrari, after which we use our reserve funds. The motion was seconded and passed.

PUBLIC MEETING ADJOURNMENT TO CLOSED SESSION: The public meeting was adjourned at 8:45 p.m.

RECONVENE TO OPEN SESSION FOR CLOSED SESSION ACTION ITEM REPORTING:

MEETING ADJOURNED