

MINUTES
Forest Lakes Mutual Water Company
Board of Directors Meeting On-line Meeting
December 6, 2022 7:00 p.m.
Public Session
910 Fern Avenue, Felton CA

This meeting will be 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 by Pres. Gonda at 7:02 pm. Attending: Directors Dennis, Gonda, Kelly, Wade, West. Staff: General Manager Cortez. The meeting was joined at 7:07 pm by Dir. Maskolunas.

Shareholders attending: S. Bellsey, K. Bolle, R. Wellman, M. Santangelo, M. Reid, S. Hector, C. Barauskas, C. Wade, V. Mills

ADDITIONS/DELETIONS TO AGENDA: None

SHAREHOLDER/PUBLIC COMMENTS

C. Barauskas expressed thanks to Firewise efforts and to Dir. Maskolunas "for bringing it all together."

APPROVAL OF MINUTES:

- Minutes of November 6, 2022 public session meeting: A motion to approve the minutes of the November 6, 2022 public session was seconded. Motion carried.

COMPANY REPORTS:

- Financial report: General Manager Cortez provided the November, 2022 financial report. Beginning cash on hand, \$662,311.57; ending cash on hand, \$273,969.53. Year to date income, \$739,210.23; YTD expenses, \$1,011,819.15. YTD there was a net loss of \$272,608.92. There were no new account overages to report. Dir. Gonda noted that the deficit relates to the repair of Scenic and that we are waiting to hear from SBA. \$197K may be recouped. Dir. Gonda also noted the significant overage in legal and professional fees. A motion to approve the November, 2022 financial report was seconded. Motion carried.
- Operations report: Per General Manager Cortez, there were two main leaks and one reported customer leak. Staff repaired the main leaks on View and Lakeside. Staff cleared culverts in preparation for rain, and following sufficient rainfall began the slow removal of the dam boards in compliance with CA Dept. of Fish and Wildlife per the approved streambed alteration plan. The shop area was cleared and materials placed under cover for protection during the winter months. SWRCB completed its sanitary survey report, including all items that FLMWC must address and with timelines for each. Staff have begun the repairs and upgrades, which will be ongoing.

ADVISORY COMMITTEE REPORTS:

- Water Conservation and Water Committee: No report.
- Recreation Committee: The Nov. "Pie in the Park" event had a smaller turnout than last year. A Christmas Faire is scheduled for 12/10, but the weather forecast is not promising.
- HR Committee: Will report in Executive Session.
- Road & Safety Committee: No report.
- Rules Committee: Working on updating water conservation stages; another meeting needed.
- Finance Committee: No report.
- Strategic Planning Committee: No report.
- Community Fire Prevention Committee: Committee met to discuss hazard mitigation planning and has developed an outline with categories. "Working on it."

NEW BUSINESS:

1. **Discussion/Action Item:** Ratify contract for Lakeside main repair: Cortez reported that on 11/14 a main leak on Lakeside occurred. Over a two-day period, staff located and repaired the main and cleaned up the site. The excavation

resulted in an area too large for FLMWC staff to pave. Paving of View had already been approved by the board but had not yet been completed. Cortez contacted Valley Paving to see if they could do both locations at the same time, saving FLMWC money and allowing for the quickest opening of this main route. Valley Paving provided two prices, one for simply completing the area impacted by the leak; the second adding additional square footage to cover the width of the road as well as an additional 100 sf that was already in bad shape. A price of \$6,300.00 was given for the larger repair. Cortez emailed all board members that this was an emergency situation and a necessary repair, and recommended that the additional area also be completed. There was no time to call a board meeting but the majority of members responded favorably to the email. The paving was completed on November 16.

There was a question about the reason for the break. Cortez stated that the break was at the location of a previous repair. It was suggested that the frequency of breaks be tracked. Cortez noted that there is a leak log.

A motion to approve the Valley Paving Invoice in the amount of \$6,300 for the repair on Lakeside Dr. was seconded. The motion carried.

- 2. Discussion/Action Item:** Approval of 2023 Budget and assessment increase: Pres. Gonda noted that as discussed at the last meeting, shared at the “open office” session in November, and in documents distributed by email, there is a potential \$200K budget deficit to be covered. Some of the challenges include replacing infrastructure whether due to age, failure or natural disaster. If the assumptions about the deficit hold true, a 28% increase in assessments would be needed to close the spread. In a typical year, we do have budget savings, mainly related to payroll savings associated with unfilled positions; only occasionally do we go into the red. Shareholders have offered helpful suggestions for possibly raising revenue. One suggestion for increasing ongoing revenue would be to increase the stock transfer fee. 10+ properties changed hands last year; a \$5,000 fee would have produced \$50,000 in revenue. The fee would be transparent through the escrow process. This could be an effective way to increase our savings.

G.M. Cortez then reviewed scenarios for a 2023 budget, one being budget neutral, plus four other options: a budget with a 28% assessment increase, one with 28% + 7% with 7% designated for self-savings, as previously suggested by Dir. Maskolunas; a budget with a 14% increase, suggested by Pres. Gonda as a middle ground taking into consideration that we may have payroll savings; and one with a 14% increase + 7% for self-savings.

With no increase in assessments, there would be a shortfall of \$195,622.57. Cortez pointed out the bottom line differences between the five different budget projections. Gonda added a caveat to the option of a 14% increase, noting that we have historically had an annual average of a 5% assessment increase yearly, and that even if we end up with a fortunate balance we will still need a minimum of 5% annual increases to bring our structural deficit into balance.

Cortez noted that the additional amount for savings would only be possible if at year-end the budget has a neutral balance. She highlighted the line items associated with savings, e.g. the State-required Emergency Operating Reserve, the Water Source Development Reserve, and the Capital Improvement Reserve.

Questions were entertained:

Q: Is the 28% increase if we don't get the SBA Loan? A: No. There is a very small chance the funds could come before 1/1/23 but this is highly unlikely. If/when we do receive the approved \$197K, it will go back into reserves.

Q: What is the difference between the cost of the Scenic repair and the \$197K loan? A: We will be requesting an additional \$205 K.

Q: Where could savings come from? A: Payroll is usually under budget.

Q: When did we last increase the stock transfer fee? A: It may have been last year. It was recent.

Q: What are the terms of the SBA loan? A: 2.5% for 40 years. We have paid down quite a bit. Payments are \$1978/month.

Q: Has Forest Lakes looked into grant moneys? A: FLMWC has been the recipient of several Resource Conservation District grants since 2015. These are usually matched grants [50/50]; RCD also pays for all the permits. One shareholder is looking into writing a grant request to replace the tanks on Scenic. Cortez has also looked into USDA and the State Water Resources Control Board, but generally our income is too high for the latter.

Q: Has Forest Lakes considered fundraising? A: A lot of ideas have been generated; some would be one-time in nature and would not address the ongoing structural deficit. There are good ideas but not related to adopting the budget this evening. There was a suggestion to consider forming a fundraising committee.

Directors' questions included the following:

Q: What if we start with a 14% increase with the understanding that we might need a course correction? A: It would be doable; we could make a mid-year budget adjustment. However, some shareholders plan for their yearly payments.

Q: If we do a 14% increase and still have a negative \$97K budget, might that deficit be less if we didn't hire for a budgeted position? A: Yes. However, we are planning for the fact that we might have to use reserves. Because of the flexibility within the budget, we frequently do not have to go into reserves.

Q: It sounds then like a 14% increase makes more sense, plus the 7% "rainy day fund" which we absolutely need. A: The stock transfer fee increase could then be the "rainy day fund."

Q: For the stock transfer fee, would the new owner then have to pay \$5000 plus their assessment? A: Cortez explained the nature of the fee and how it is paid.

Q: Could we do the stock transfer fee on top of the rainy day fund, to get double savings?

Q: How are buyers/sellers notified? A: It is in the escrow demand. FLMWC does not ask it of the seller. It is typically in the contract and hopefully is not a surprise. When lenders look at our road and water fees, they tend to look at this as if they were HOA fees and consider that in evaluating buyers' purchasing power. It was suggested to include information about this on the web page.

Q: What is the data on sales per year? A: Above 10 for the last 3 years—14 this year. Prior to that, an average of 7-8.

Q: Can we resolve that we will increase the transfer fee but not include it in the budget? Have the budget be "blind" to this, as we don't know how many homes will sell? A: That could be part of the motion process, but if we leave it blind we do not know the amount by which to increase assessments.

Following the discussion, Pres. Gonda called for a motion.

Dir. Maskolunas moved that we consider a \$2500 transfer fee to go toward the rainy day emergency fund. Dir. Gonda noted that this does not address the budget as a whole, and that a total motion is needed. Dir. Maskolunas then moved to increase assessments by 14% plus a designated 7% rainy day fund assessment, and additionally an increase to the stock transfer fee to \$2500 for the emergency or "rainy day" fund.

The motion died for lack of a second.

Dir. Gonda noted that we do have a reserve fund for capital improvements and know we do not have enough in this fund. We need clarification about what a "rainy day" fund means. Would it be only for emergencies, even if our capital reserve account is inadequate for things we need?

Dir. Maskolunas then moved that we adopt a 14% increase in assessments and increase the stock transfer fee to \$5000 to go to the "rainy day and infrastructure fund". Dir. Gonda encouraged the Board to consider whether we need a specific emergency fund compared to increasing our capital reserves which essentially would be used for the same thing. He asked how Dir. Maskolunas would define what is a "rainy day." Dir. Maskolunas said she originally referred to this as "self-insurance" for a catastrophic event, and said we should have some funds to show to FEMA if we should need to apply for a FEMA grant. How the fund is defined could be flexible, but we have nothing defined as specific to a catastrophic event.

Dir. Gonda clarified Dir. Maskolunas' motion as follows: To increase assessments by 14% and increase of the stock transfer fee to \$5,000, the revenue of which fee would go to a targeted fund that would address catastrophic loss.

Dir. Dennis asked whether we would want the \$5000 stock transfer fee revenue to go into a designated fund that we could not use for other needs such as capital improvements. Cortez stated that funds can be titled whatever we want, for example there could be a fund for "capital improvements/catastrophic loss reserves." The capital reserves are there to be for a variety of purposes including, potentially, catastrophic loss.

Dir. Wade seconded the motion to increase assessments by 14% and to increase the stock transfer fee to \$5000 to be used for reserve funds.

Dir. Dennis amended the motion as follows: To increase assessments by 14%, and to increase the stock transfer fee to \$5000, to go toward the “capital improvement /catastrophic infrastructure loss reserves.”

Dir. Wade seconded the amended motion.

Dir. Gonda commented that we haven’t discussed what we would do with potential salary savings, if we do make these adjustments and find ourselves at the end of the year with additional savings. Dir. Kelly commented that it could to toward expenses. Dir. Dennis suggested any savings from payroll go into the reserves.

Dir. West asked if the motion to designate the stock transfer fee to reserves was intended to be permanent, i.e. never used for operational costs. Dir. Gonda and G.M. Cortez indicated that the budget being annual, that decision could be made by the Board each year.

Dir. Kelly offered a competing motion to close the structural deficit by a 28% increase to assessments and to increase the transfer fee to \$5,000 effective 1/1/23. There was no second.

Pres. Gonda then called for a vote on the amended motion to increase assessments by 14% and to increase the stock transfer fee to \$5,000 effective 1/1/23. There were 5 votes in favor, with Dennis, Gonda, Maskolunas, Wade and West voting Aye, and Kelly voting No.

PUBLIC MEETING ADJOURNMENT TO CLOSED SESSION: The meeting was adjourned to closed session at 8:28 p.m.

RECONVENE TO OPEN SESSION FOR CLOSED SESSION ACTION ITEM REPORTING: The meeting was reconvened to open session at 9:27 p.m. to report the following: A shareholder’s appeal regarding an excessive use fee was discussed and action taken. A modification of PTO policy for employees was discussed and approved.

MEETING ADJOURNED: The meeting was adjourned at 9:28 p.m.

Pete Gonda, President

Louise West, Secretary