

**SILVER SPRINGS MUTUAL WATER COMPANY
ANNUAL MEMBERSHIP
MEETING MINUTES
MARCH 21, 2013**

President Peek called the annual membership meeting to order at 4:00 p.m. at Silver Stage High School.

Roll Call:

- Present: Claud Butler, Darlene Geurts, Joyce Jenkins, Scott Keller, Avis Moniz, George Peek and Peggy Yon.
- Absent: None.

Old Business:

- Nominations for Board of Directors: There are three (3) Board Member seats up for election. Sherry Flynn, Scott Keller, Chuck Noble, George Peek and Peggy Yon were nominated February 21, 2013.

Officer's Report:

- Contained in the Directors Annual Meeting Minutes.

Public Comments:

On any item not on this agenda, and pertinent to SSMWC Board of Directors will be received during this public comments portion of the meeting. Comments will be limited to three (3) minutes per person, per item. (no action will be taken on any item until it is properly agendized). The Board of Directors and General Manager Roy McDonald introduced themselves to the large audience gathered at the Silver Stage High School Commons Building. Many comments and questions were heard by the Board of Directors. Lyon County Sheriff's Office personnel were on site. Chuck Zumpft from the law firm of Brooke Shaw & Zumpft acted as legal counsel. Comments were received for a duration exceeding 60 minutes, however, most were inaudible due to echo, attributed to the size of the room and insufficient recording equipment. Those speaking with a microphone, both slowly and clearly, could be transcribed.

- Valerie Messaros asked why the base rate consumption level was lowered from 30,000 gallons to 15,000 gallons and where does the sacrifice go. Sheriff's Deputies addressed a disruption by Frankie Molarius during Ms. Messaros' opportunity for comment. Messaros inquired as to policies and procedures in place for member approved financial obligations, such as loans through the United States Department of Agriculture (USDA). The Board is elected annually by the membership and oversees financial operations throughout the year devoid of micromanagement, by virtue of the authority granted by the membership until the next annual meeting and election is held. Ms. Messaros named Ken Harvey as having been allowed in when she saw other people denied entry. She asked if anyone else had been allowed entry. President Peek explained that Mr. Harvey has owned property on Spruce Street for many years. Mr. Harvey indicated he holds water rights and formerly served on the SSMWC Board.
- Frankie Molarius had been removed from the annual meeting by Sheriff's Office personnel.
- Robert Arndell asked "who" is benefitting from the 15,000 gallon consumption level.
- Stephanie Wozniak, Bill Holler, Michael Mallison, Don Bailey, Ken Harvey, Ray Johnson, Debbie Glick and Jackie Picciani made comments.
- Questions were posed about total membership, quorum and total number of voting persons required to hold an election. Legal counsel explained the majority determination.
- President Peek negated a rumor as absolutely false. Folks had heard they would be required to hook up.
- A question was posed regarding sources of water (underground wells) for the water system.
- A question why 4:00 p.m. was the meeting time was posed.
- Claims were made that rate increases and by-law changes were approved without proper procedure.
- President Peek noted SSMWC was formed under Chapter 81 of Nevada Revised Statutes (NRS).
- A member suggested that an option to vote for Board candidates through the mail be considered.
- Heated debate ensued on the topic of proxies that were mailed to the membership.
- A member made the suggestion to list who the candidates are and something about them (bio) prior to voting.
- Frankie Molarius was back in the room and demanded the specific NRS code for the quorum on this vote and to point out where it is when another member pointed out she already talked. As Molarius continued, the meeting was re-directed to the next item on the agenda.

Secretary's Report:

- Contained in the Directors Meeting Minutes.

Treasurer's Report:

- Contained in the Directors Meeting Minutes.

Manager's Report:

- Contained in the Directors Meeting Minutes.

Items for discussion, Action may be taken:

Public comments on agenda item: The presiding Officer will invite public comment pertaining to those matters on tonight's agenda during the Board's consideration of each individual matter, and before action, if any is taken. Public comments will be limited to three (3) minutes per person, per item, unless additional time is permitted by the presiding Officer.

Water Rate Review, Farr West Engineering; No Action to be taken.

In 2011 when the rate increase schedule was adopted, the motion stated that after the second year rate increase and before the third year increase went in to effect, that it would be reviewed to see if the next increase would be needed or if the rate schedule was adequate. Mr. Farr will be here to present their findings.

- Mr. Brent Farr, P. E. of Farr West Engineering spoke to the membership and provided illustrations to accompany their findings. Mr. Farr has managed many large and complex projects throughout Nevada. He has extensive experience with project management, administration, facility planning, facility design, construction management, financial planning, funding acquisition, rate analysis, water conservation, environmental work and training. Brent received his bachelor's degree in civil engineering from Brigham Young University and his master's degree in civil and environmental engineering from the University of California, Berkeley. He is a licensed Professional Civil Engineer and water right surveyor in Nevada as well as a member of the American Society of Civil Engineers, American Water Works Association and the Nevada Water Environment Association. He welcomed feedback and indicated that good financial planning is essential for the success of a utility to meet goals and provide safe and reliable drinking water, fire protection and meet state and federal regulations. Water rates pay for the operation and maintenance of a system, its debt financing and future capital replacements. This must be accomplished in a responsible way. Goals in rate setting include ensuring sufficient revenues that will cover current and future operation and maintenance costs, debt service, depreciation and capital improvements. It's about being financially viable and responsible while creating equitable rates among all the ratepayers.

This is where usage comes into play such as the drop from 30,000 gallons to 15,000 gallons. In rate setting you look for things that are inequitable or unfair and aim to develop a rate structure that isn't overly complicated for the consumer. The rate structure for Silver Springs is very basic, in that it is mostly a residential community without much in the way of commercial uses. Most residential customers of SSMWC pay \$40.00 per month for a ¾" service. In Silver Springs there are two zones because the water company recognizes increased costs associated with being in a higher zone; there's a pump station (and another tank) to push the delivery of water to customers in higher elevations. Larger service meters in either zone cost a little bit more because it is purely a capacity issue. A two inch meter allows for five times the use of a ¾" meter and so larger infrastructure and more capacity is required to supply that level of service. Most of SSMWC falls under this rate setting philosophy.

For every 15,000 gallons customers pay a base rate and for every 1,000 gallons after that there is a \$2.00 charge added to the bill. This is a very common method in setting rates in Nevada. In Nevada you see less and less of what is called the "flat rate", where customers pay the same amount every month and use as much, or as little, as they wish. Rates 35 years ago are not the rates of today. At the former 30,000 gallons, most residences never saw overage costs on their bill. The state is putting pressure on water companies and providers to establish rates that promote conservation with a "pay for what you use" methodology. This is really the basic concept; if you choose to use a lot of water, you pay more and if you don't use that much, you pay less.

Getting to a couple of facts on 30,000 gallons down to the 15,000 allotment, and the misconceptions when this happened and where did the water go, the water didn't go anywhere. You can still use all the water that you want. To be clear, water rights that someone has paid for and rates for water use are two separate issues. Another thing to be aware of is that based upon analysis, the average residential user in the community only uses a little more than 12,000 gallons a month on an annual average. Most are well below using 30,000 gallons per month so really, allowing that much water usage for a base rate essentially creates a subsidy to and for those that use a lot of water. For example, if you reside in a particular home that doesn't have a lot of landscaping and you use roughly 10,000 gallons per month your water rate was the same as somebody else who was using three times as much to water a large yard. It's really not a fair practice in rate setting for those that are trying to conserve water and use a little less.

Silver Springs still has a fairly liberal amount of water use allowed in the base rate. Nearby communities have in the area of 7,000 to 4,000 gallons allowed for the base rate and this is typical for water use. The fact is, Farr West initially talked about setting the base rate allotment to 5,000 gallons but the Board preferred 15,000. When the rates were first proposed in 2011, a deficiency in revenues versus expenses was identified and a proposal to increase rates over a period of time was made so as to not have an impact on customers all at once. Mr. Farr, in his experience with utilities statewide, indicated that rates are very conservative in Silver Springs. Former Manager Don Allen was very frugal and so is the current Manager, Roy McDonald. The system is actively keeping costs in check. All aside, utility costs simply increase over time.

The SSMWC Board had asked Farr West to check to see if rates and revenues were on target to cover costs for budget years 2015 & 2017 that coincide with the rate increases. An auditor's report confirmed the independent rate analysis findings for 2012 that had indicated expenses were slightly above revenues at approximately \$29,000.00. A significant element to the budget is depreciation and the system funds depreciation but not to the extent of the term, "best management practices" used by auditors. In 2013, revenue figures remained flat and showed a larger deficit; there was no rate increase to offset expenses (capital improvement project-arsenic treatment plant) that caused an increase in funding for depreciation. In October, 2014, projections show that deficits are recovered but not quite at a level that fully covers reserves for depreciation, as is desired. The system is in good financial position while keeping rates reasonable to 2017 while setting aside funding for the future.

Every community is different with their own set of circumstances. The cost of providing water varies from community to community. For example, Fernley also has an arsenic treatment facility that was built at the tail end of the economic boom. The data that was used in their board packet was for the prior five years when housing was going through the roof. Funding circumstances turned out unfavorably because housing stalled and the treatment facility was overbuilt for continued growth. This translated into rates more than double of Silver Springs that Fernley collected through a combination of billing and property taxes to offset expenses. Note that both communities have arsenic treatment facilities and that is a partial reason why rates have increased in recent years. The Environmental Protection Agency (EPA) lowered the standard for arsenic in drinking water and the community was fortunate that there was a viable strategy to address the federal mandate. The Board was prepared with a shovel-ready project to receive American Recovery and Reinvestment Act (ARRA) funding. It paid for construction and related infrastructure for the treatment plant. Rates in Silver Springs would have been much worse had the Board not been diligent, frugal and prepared.

The cost of water is going up. It is a scarce resource and you have to pump the water to drink the water. Pumping requires energy (power). What was paid in the old days certainly doesn't apply today. Still, Silver Springs finds itself in the norm compared to Stagecoach, Dayton, Moundhouse and Virginia City customers when based upon 15,000 gallons usage. Mr. Farr pressed that the EPA looks at communities across the country, and when they do something like lower the standard of arsenic in the drinking water, the EPA recognizes the financial impact so they study and evaluate the costs of the unfunded mandate when setting drinking water standards. Water is "affordable" if it falls in this range that states use for 2 ½% of median household income. The median household income survey for Silver Springs was around \$38,000.00 and of course, some are going to be above and some are going to be below that income. Surveys are not exact. 2% of that number is about \$770.00 per year divided by 12 months would indicate that an affordable rate should be around \$64.00. Now that might be affordable for some, but not for others. The rate here is \$40.00 and that equates to 1.25% of median household income.

Sometimes people don't understand what they're getting for \$40.00. For example, \$40.00 would fill a 15,000 gallon truck with water but if you bought the same amount of water in bottles you would pay nearly \$7,900.00. Mr. Farr noted people still prefer to drink bottled water rather than tap water even though the tap water is treated to be drinkable and you are paying for it. Water companies have to treat it to a level that is considered safe by federal standards but people are willing to go to the convenience store and pay a dollar or two for bottled water that would actually translate to nearly 1,000 gallons of water for the same price. If that truck were filled with milk at the price you pay for milk per gallon, it would cost nearly \$19,000.00, and for gasoline in your truck or car, almost \$20,000.00. These examples provide perspective in terms of what people are willing to pay for different things.

- President Peek thanked Mr. Farr for his presentation and opened the floor for questions (within reason because of previous outbursts) asking persons to raise their hand and be given the microphone. A question of where the source of arsenic is coming from was answered; it occurs both naturally and by some other source. It is a natural element in Silver Springs and is common to Nevada. Mr. Farr addressed other questions on topics that included seasonal usage, banking of water rights - not banking usage, water rate increases, number of employees since the \$28.00 rate, comparisons of communities, foreclosures affecting revenue and potential service parcels – vacant home or land – by

charging a fee to those parcels to offset expenses, and lastly the cost for conducting the 2011 rate analysis and 2013 review.

- A brief period of continued questioning evolved into other topics such as the annual consumer confidence report and water conservation methods followed Mr. Farr's rate presentation.

Closed Personnel Session:

- Contained in the Directors Annual Meeting Minutes.

New Business:

Election of Directors. Three (3) Director's seats up for election.

- There are three (3) Board Member seats up for election. George Peek, Peggy Yon, Scott Keller, Chuck Noble and Sherry Flynn were nominated on February 21, 2013. At this meeting, three (3) more nominations were made for members Don Alt, Carolyn Lindsey and Doug Frenton. Each nominee was afforded time to speak to the membership prior to ballot distribution. Vote count observers Keith Trout, Mason Valley News, Chuck Zumpft, Attorney at Law and Jean Javier, SSMWC member verified the ballots and number of votes cast by the membership. Results were:

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|--------------|----|-----------------|----|--------------|----|
| George Peek | 68 | Chuck Noble | 38 | Don Alt | 27 |
| Peggy Yon | 62 | Doug Frenton | 34 | Sherry Flynn | 18 |
| Scott Keller | 61 | Carolyn Lindsey | 28 | | |

Adjournment:

- Member Keller made a motion to adjourn the meeting; 2nd to the motion was made by Secretary Butler. Motion carried. The next meeting is to be held at 4:00 p.m. on Thursday, May 16, 2013 at the SSMWC Office.