

MINUTES OF REGULAR MEETING
BOARD OF DIRECTORS
ATASCADERO MUTUAL WATER COMPANY

July 11, 2007

The meeting convened at the office of Atascadero Mutual Water Company, 5005 El Camino Real, Atascadero, at 6:32 p.m., President Rodger Vierra presiding. Others present were Directors, Jackie Lerno, Frank Platz, and Leroy Davis, General Manager John Neil, Treasurer/CEO Ken Weathers, and Secretary Cheryl Powers. Vice President Robert Jones was absent.

PUBLIC COMMENT:

There was no public comment.

APPROVAL OF MINUTES:

A motion was made and seconded to approve the minutes of the regular meeting of June 6, 2007. The motion carried 4 to 0.

The following reports were reviewed:

OPERATIONS REPORT:

The Operations Report was available for review. The General Manager reported that Well 1B is now operational. The General Manager noted that well levels are starting to drop, but he isn't concerned about production at this point. He also noted that demand in June was slightly less than projected.

FINANCIAL REPORT:

The Financial reports for May were available for review. The General Manager reported that, due to connection fees being paid and meter sales, WRDR revenue is ahead of projections at this point and that trend continued in June.

CONSERVATION REPORT:

The Conservation report was available for review. The Conservation Manager reported that she continues to receive many requests for home water surveys; she feels that the bill inserts and higher water bills earlier in the year have increased interest in the program. She reported that she is looking at options for a landscape rebate program, she is still evaluating the sprinklers that were installed at a home in The Lakes for low-head drainage results, and that customers continue to show interest in the low-flow toilet and washing machine rebate programs. She mentioned that this year's Autumn Garden Tour will include a home where turf has been replaced with water-conserving landscaping, and the owners will share information regarding the savings they've realized as a result.

The Manager's Report was available for review as follows:

KEN WEATHERS' RETIREMENT PARTY:

The General Manager reported that Ken's last day as an employee is July 17, 2007, and that staff has planned a dinner party at the Lake Park Pavilion for Friday, August 3, at 6:00 p.m.

WORKERS COMPENSATION INSURANCE:

The General Manager reported that AMWC's worker compensation insurance policy was renewed with State Fund, effective July 1, 2007. Due to an overall drop in workers compensation rates and AMWC's experience modification rates dropping, AMWC's workers compensation costs are expected to be 34% less than last year, resulting in approximately a \$30,000 savings in workers compensation premium. Management believes that heightened awareness regarding safety has led to AMWC's improved safety record.

LEAD & COPPER RULE TREATMENT:

The second round of in-home samples will be taken the first week of August to verify the effectiveness of the phosphoric acid treatment; staff hopes to find reduced copper levels at that time.

ELECTRONIC PAYMENT:

The General Manager reported that staff has executed the internet banking and automated clearing house agreements to allow electronic payments to be made by customers and is awaiting completion of software modifications. Staff will conduct trials in late July and early August and hopes to have this payment option available to customers in late August or early September.

REPLACEMENT WELL NO. 1B:

Staff has received the state well number and Well 1B is now online.

VALVE BOX REPLACEMENT PROJECT:

The General Manager reported that D-Kal Engineering was the low bidder for this project and has been selected to replace approximately 100 damaged or sub-standard valve boxes and lids as part of AMWC's ongoing maintenance program.

ASSEMBLY BILL 817:

The General Manager explained that Assembly Bill 817, which would require the establishment of a supervisory committee to oversee the activities of all mutual water companies, is in process at the state legislature. He has drafted a letter to Assembly Member Bill Maze, the author of the bill, expressing AMWC's opposition to the bill and concern regarding moving regulation of mutual water companies from the Corporate Code to the Public Utility Code. The letter also states that the bill unnecessarily creates cost and bureaucracy concerns for all mutual water companies where current law already exists within the Corporations Code.

A motion was made and seconded to have the Board President sign and to send the letter to Mr. Maze and a copy to Assemblyman Sam Blakeslee. The motion carried 4 to 0.

The following new business was discussed:

SAN MARCOS TANK ROOF REPLACEMENT:

The General Manager reported that staff has completed evaluating the cost estimates received for replacement of the San Marcos Tank roof. A structural engineer has estimated the tank will last another sixty years. The proposed cost for the plywood roof is \$300,000, and the estimated service life of a plywood roof is 20 years. However, because the roof would have to be replaced three times for the duration of the tank's service life, staff estimates the present value of the plywood roof to be \$780,000. In addition, the tank would have to be drained and the plywood sealed every five years, and other maintenance costs would be incurred as well. The proposed cost for the low-rise aluminum dome is

\$791,500. The aluminum dome is expected to last as long as the tank and would require no future maintenance. Staff has estimated the present value of the aluminum dome roof at \$737,500.

The General Manager explained that staff has budgeted \$750,000 for the roof replacement. He also noted that the time staff spends maintaining the roof will be reduced, and safety concerns regarding staff working on roof will be eliminated. He noted that the master plan estimates there is sufficient of storage in this tank, and that the tank will need to be taken out of service for approximately two months;

A motion was made and seconded to allow staff to solicit bids for replacing the existing wooden tank roof on San Marcos Tank with a low-rise aluminum dome. The motion carried 4 to 0.

FY 06/07 FINANCIAL STATEMENTS

The General Manager stated that staff delivered AMWC's draft audited financial statements for 2006/2007 to the Board Members on June 22 and no input was received from the Board, so staff is now presenting the statements for approval.

A motion was made and seconded to approve the 2006/2007 audited financial statements prepared by the accounting firm Barbich, Longcrier, Hooper & King as presented. The motion carried 4 to 0.

GRANT OF EASEMENTS, SAN LUIS OBISPO COUNTY

The General Manager discussed the background of granting easements to San Luis Obispo County for construction of the Nacimiento Water Project (NWP). He stated that at AMWC's October 12, 2005, Board of Directors meeting, the Board authorized providing any necessary easements for the NWP across property, without compensation, subject to the easements meeting the following conditions:

- Must be at no cost to AMWC
- Must not impact AMWC's planned or present facilities
- Locations must be consistent with the representations made on the preliminary NWP alignment plans, and
- Other initial NWP participants must contribute easements across their land for the benefit of the project at no cost

The General Manager explained that staff has reviewed the easements and found them to be in conformance with the conditions established; to AMWC's knowledge, the other agencies are providing easements. He also stated that staff is working with the County of San Luis Obispo to optimize the alignment of the easement across APN 034-434-001 by making the permanent adjoin the easterly property boundary. The County proposed the current easement based on a fence that is on AMWC property but belongs to the Davis Ranch, and staff is working to have the fence moved, which means the pipeline alignment would have to change.

A motion was made and seconded to authorize the President to execute an easement deed that is in substantial conformance with Attachment A, a sample easement deed provided by San Luis Obispo County, for the easements required by San Luis Obispo County for the construction of the Nacimiento Water Project, subject to the changes needed to move the Davis' fence and realign the pipeline. The motion carried 4 to 0.

The CEO's Report was available for review as follows:

NACIMIENTO WATER PROJECT:

The CEO presented updated information regarding bond structure options available to AMWC. He stated that a final decision will not need to be made at this time and that a lot of assumptions were

made in addressing the various options. He reviewed the debt service alternatives and stated that staff's recommendation is to go with the flat rate debt service. He also noted that all participants in the NWP agree that debt service coverage of 1.25% is excessive, and the contract amendment is being revised to reflect the change.

He discussed debt service reserve fund options and said that the amount should be equal to one year of AMWC's debt service, which is assumed to be \$3.2 million. He also noted that UBS proposed getting the \$3.2 million through a bond issue. He discussed the options for the source of the reserve funds, i.e., cash contribution, fund from bond issue, use of reimbursements from bond issue for design costs, or a surety bond. Staff's analysis of these options was reviewed, and he stated that staff recommends that a surety bond be utilized; he noted that payback of the cost of a surety bond as compared to a bond issuance is estimated to be about four years or less.

The next item discussed was the call provision. He stated that a call provision could result in increased interest rate costs, and that PFM and UBS do not have estimates of these costs yet. He explained that a call provision could provide an opportunity to pay off part or all of a bond issue sooner, and that a bond issue would likely not be called until actual reserves exceed the reserve goal. Staff estimates that actual reserves should exceed reserve goals by about \$5.9 million in about 15 years. He discussed a Par Call, Make Whole Call, and CSA formation. He stated that staff recommends adding a Make Whole provision to the bond issue because it allows for flexibility with no cost added to the original bond debt. (A Make Whole Call provision compensates the bond buyer for the investment opportunity given up by the buyer in the event that the bond entity decides to cash out some of the bond issue.) He also stated that staff believes formation of a CSA is unlikely.

The CEO discussed two items that were anticipated to be funded by and included in the NWP bond issue funding, i.e., capitalized interest and reimbursement of contribution of design costs. He explained that the level of funding between the two will be based on the flexibility of funds held in reserves, among other factors. He presented financial projections prepared by staff demonstrating how long-term reserves change based on growth projections, inflation, and interest income. One scenario also showed rates and charges that are needed to establish and maintain total reserves at the desired goal. He noted that bond companies prefer seeing the funds applied to capital interest.

A question as to when the water treatment facility needs to be built was posed and whether or not we have enough reserves to build it. The General Manager reported that he believes we could hold off building the treatment plant until we have sufficient funds to build it. The Board asked if we need to build up a lot of reserves for the treatment plant, and the answer was that staff doesn't know, and that it depends on the scenario we use. The General Manager reported that DHS has seen our proposal and said they want to see additional testing for turbidity, and it was suggested that DHS may require more treatment in the future. Staff's recommendation is that the Board look at the reserves in the base model scenario prepared by staff, where reserves are not excessive.

The CEO concluded by stating that staff has gone through several steps and now needs to know that the Board is comfortable with the information received and will be able to make decisions at the next meeting. He asked the Board to consider the following issues:

- 1) What is a reasonable level of reserves?
- 2) How much do we want to borrow and how will the funds borrowed be applied (to capital interest and/or reimbursement of design costs)?
- 3) Call provisions

He also stated that in September AMWC will be asked what investment vehicle it wants to use.

He suggested most of the projections used by staff are very conservative and that adjustments to the cash flow can be made if needed. He also noted that the budget for the capital improvements projects is fairly aggressive and we usually can't complete all the projects budgeted.

Lastly, the CEO stated that the bid openings start July 16, and that all bids will be in by July 25, so we'll start finding out if the estimated costs are close. He asked if the Board had any follow-up questions, and the Board indicated that they did not and stated that staff has done a good job presenting the information and scenarios.

NACIMIENTO WATER PROJECT COMMISSIONER APPOINTMENT

The General Manager explained that since Ken Weathers was the AMWC alternate representative to the Nacimiento Water Project and Ken is retiring from AMWC effective July 17, 2007, AMWC needs to appoint a replacement for him.

A motion was made and seconded to appoint John Neil as the alternate representative to the Nacimiento Water Project Commission. The motion carried 4 to 0.

NEXT MEETING DATE AND TIME:

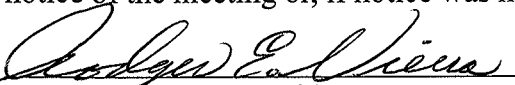
The next meeting is scheduled for August 8, 2007, at 6:30 p.m.

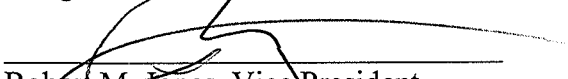
The meeting was adjourned

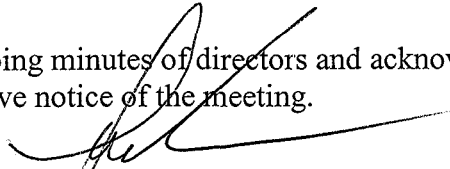

Cheryl J. Rowers, Secretary

APPROVED:

The undersigned directors of the Company approve the foregoing minutes of directors and acknowledge notice of the meeting or, if notice was not properly given, waive notice of the meeting.


Rodger E. Vierra, President


Robert M. Jones, Vice President


Jackie M. Lerno, Director


D. Frank Platz, Director


Leroy R. Davis, Director