

***SHEEP CREEK WATER COMPANY
ANNUAL STOCKHOLDERS MEETING
MINUTES OF
MAY 11, 2019***

Welcome All Shareholders & Guests, to the 2019 Annual Stockholders Meeting!

I. Open Meeting

The Annual Stockholders Meeting of May 11, 2019 was held at Pinon Mesa Middle School, located at, 9298 Sheep Creek Road, Phelan, California. The Meeting was called to order at 10:00 A.M. by Board President, Andy Zody. Mr. Zody thanked everyone for coming and reminded everyone that the meeting was being recorded for accurate meeting minutes. A quorum was met and the Annual Meeting officially commenced.

Bob Howard led in the Pledge of Allegiance, and David Nilsen led the Invocation.

The current Board present were President Andy Zody, Vice President Bob Howard, Secretary Treasurer Kellie Williams, and Directors Luanne Uhl and David Nilsen.

Past Board members present were Harry Wright, Villy Jorgensen, Ken Anderson and James Watson. Mr. Zody thanked them for their valuable time served on the board of Sheep Creek Water Company. A moment of silence was called in memory of long time shareholders John Store and Clarence Carter. Both men were a great asset to the history of Sheep Creek Water Company.

The Staff of Sheep Creek Water Company were introduced along with this year's Proxy Committee which included Shareholders Bonnie Howard and Donna Drover. Staff present were General Manager Chris Cummings, Field Supervisor Michael Siaz, Water Quality Joseph Tapia, Water Tech Paul Pollard and Office Staff, Dorothy Zody and April Dryden Chaplin.

The Company Attorney, Ernie Riffenburgh was introduced. Thank you Ernie for the many years of service with this company.

II. Financial Update

- a) **2018 Financial Statement:** Mr. Zody shared an overview of the 2018 Financial Statement. Shareholder Maisy Parker moved to accept the 2018 Financial Statement as presented. Shareholder James Watson seconded the motion. Motion carried.

III. Old Business

- b) **2018 Annual Meeting Minutes:** James Watson moved to accept the 2018 Annual Meeting Minutes as presented. Allen Parker seconded the motion. Motion carried. Mr. Watson reminded everyone that Sheep Creek Water Company has been through a past moratorium and survived. He thanked the Board for volunteering their time for this company.
- c) **System Update:**
 - 1. **Production** – As of April 30, 2019 all static well levels are up an average of 10 feet compared to this time last year. The Tunnel is currently flowing at 119 gallons per minute. All sources producing 1,286 gallons per minute, including the new Well 11. Production at the Well Site compared to three years ago is down 1,685 gallons per minute. Water *produced* in 2018 was 625 acre feet (or 203.6 million gallons) Water *sold* in 2018 was 532 acre feet (or 173.4 million gallons).
 - 2. **Tier Water Rate** – A Tiered Water Rate was implemented to incorporate the Well 11 water and additional wells within the Mojave Water Agency. Tier 3 is the Overage Rate which has charges included for assessments and upgrades.
- d) **CRWA Technical Assistance** – In 2016, Sheep Creek Water Company requested Technical Assistance from CRWA to help acquire Grant Funding for system

improvement and adjustments. The CRWA worked with Sheep Creek staff to complete an engineering report to acquire grant funding for new wells and upgrades to the system.. (This report can be viewed at <https://www.sheepcreekwater.com/engineering>

- e) **Well #11 Update** - Well 11 is online. It is pumping 250 gallons per minute, but Southern California Edison is not yet connected.

II. New Business

a) **Well #11 Loan Repayment – Options**

1. *Assessment - \$15 per share per year for 5 years*
2. *8\$ Base Rate increase per month per meter service for 5 years*
3. *\$5.00 Base Rate Increase plus Tier 3 funds per month per meter service for 5 years*

Sheep Creek borrowed the remaining funds to complete Well #11 and the Board of Directors is presenting the option to repay the loan.

SHAREHOLDERS DISCUSSION

Shareholder, Jim Watson stated that Sheep Creek Water Company is a non-profit business. The Board of Directors are volunteers. They volunteer their own time and do not get paid to be on the board. There was another moratorium in 1989 set by the State. It's going to take some time, but eventually the water will get to us. People complain about Sheep Creek Water Company, but what they don't understand is that the other water company does not care about you. They will add costs onto your tax bill, in order to pay for things. Mr. Watson commended the Board for all their hard work.

Shareholder, Lisa Halas shared her concern regarding the charge on the meter instead of the shares. Mr. Nilsen explained that anytime the company needs to pay for an improvement, the Board of Directors bring it to the Shareholders. When necessary, the Shareholders are asked how they want to pay for an improvement. The choices have either been an Assessment, Base Rate or Water Rate increase. The Shareholders vote on how they want to pay. Mrs. Halas shared that she was not aware of voting on such things, or the results of voting. Mrs. Halas felt that she was not informed. Mrs. Halas did not think that it was fair for the shares to vote to increase the rates on the meter user. Mrs. Halas also thought it was unfair for the larger Shareholders to vote to increase the base rates so that the smaller Shareholders have to foot the bill.

Shareholder, Karen Hardy purchased property and was told there was no problem getting water service to her property. However, sometime later, when Mrs. Hardy was ready to have water service brought to her property, she was told that the State had placed a moratorium on Sheep Creek Water at the end of August 2018, because of low water levels. Mrs. Hardy asked to review the 2017 Financial Statement and wondered why the company is operating at a loss. She encouraged landowners to vote for the consolidation of Sheep Creek Water and Phelan Pinon Hills Community Service District. She asked if the company had a Master Plan and why would Mr. Nilsen loan the water company money.

With regard to Mrs. Hardy's questions and concerns, Mr. Nilsen answered, yes, the company has a Master Plan, and the Company has also commissioned California Rural Water Association to assist in getting some grant funding. We have completed a lot, but much more needs to be done. If you want to view the Master Plan, you can view it on our website. The company is actively working on upgrading this system. Mr. Nilsen also assured everyone that he, himself, has not ever loaned money to the water company, although a certain family member has. Mr. Nilsen stated that it was not just one person that has loaned money to the company, over the years, there have been several. They have genuinely wanted to help this company out, and have.

Shareholder, Harry Wright shared that he once was on the Board, and that nothing was ever being done in secret. He stated that people would know more about what is going on if they were to go to the meetings.

Shareholder, Abram Tavera shared his concerns about his high water bills for the Sierra View Mobile Home Estates. It was explained that because of the changes in the allotment, it would affect the mobile home park account.

Shareholder, Mark Chase shared his concerns about how his yard is brown but the farmers can still grow. Mr. Nilsen thanked Mr. Chase for bringing up a good point. There are those people who are still using more than their shares are allotted and that is why Tier 3 has been introduced.

Guest, Robert Righetti (District Engineer of Water & Land Use) *"What you have in this water company, should never be let go. You should hang on to this tightly, because it's the most control you will ever have towards your future."* Mr. Righetti shared that merging with the Community Service District, means more power for them. Being a Shareholder in Sheep Creek Water Company means you have a say. You will lose your voice if you consolidate. In Mr. Righetti's words, "water is gold". He urged all Shareholders to hold on to their water rights.

Shareholder, Robert Tolliver also concerned about the farmers in the area using the water, while he has to let his yard go.

Shareholder, Joseph Wolf shared that when he saw how the water situation was going, he got rid of his trees in order to conserve. Mr. Wolf felt the charges should be on the meter not the shares.

Shareholder, Skip Ewing shared that the Board has done a great job. As a business owner, he wondered if option 2 & 3 were to go into effect, and the wells were drilled, how long the moratorium will last. Mr. Nilsen said that the actual drilling of one well can take up to about two years.

Shareholder, Ken Barrale shared that he loves his fruit orchard. He does not sell his fruit, it is used for his own consumption. He is concerned why we could not buy water from the CSD. Sheep Creek has borrowed water from the Community Service District in the past and they, in turn have borrowed water from Sheep Creek. Mr. Nilsen confirmed that a year ago, both water companies worked together and came up with an emergency agreement.

Later in the meeting, Mr. Barrale stated that at this time, Sheep Creek Water users are able to buy their allotted water at cost. If Sheep Creek Water was to merge or consolidate with PPHCSD, then the water would no longer be sold at cost.

Shareholder, Ken Anderson shared his concerned about Mr. Nilsen coming across as representing all of the Board. If the Board is in agreement with how Mr. Nilsen feels, then it should be presented in that way, regarding a mailing Mr. Nilsen sent to the Shareholders. Mr. Nilsen clarified that the whole Board was involved and in agreement in all the options that were in the letter that was sent out. He sent out the letter because there was things being said about himself and the water company that are false. It was a personal letter, sent to the Shareholders encouraging the customers to sign his proxy only if they agreed with him.

Shareholder, Diane Hayball stated that several months ago, she had requested customer addresses, but was told that Sheep Creek was not able to give out customer information due to privacy laws. She asked how Mr. Nilsen was able to obtain these addresses. The Company's attorney, Ernest Riffenburgh stated that "under certain circumstances", it is appropriate for addresses of other Shareholders to be obtained. Mr. Riffenburgh was not prepared for this issue, but promised to research it more thoroughly. Mr. Zody stated that it has been researched in the past and was told that if you own at least 5% of the stock in the company, you are entitled to certain things within the company.

Shareholder, Joe Henry, has been with Sheep Creek Water since 1978. He asked what the items to be voted on today were. Mr. Zody answered that today the Shareholders were voting on how to pay off Well 11, and to vote on a Board of Directors for 2019. Mr. Henry stated that he would like to see the company stay private. Not having made a decision yet, Mr. Henry asked for clarification on the three options on how to pay off Well 11. #1) a \$15.00 Assessment of every share per year for five years, #2) an \$8.00 increase to the Monthly Base Rate for 5 years or #3) a \$5.00 increase on the Monthly Base Rate and Tier 3 revenue for five years.

Shareholder, Kathy Everhart suggested a "split cost", something that she had shared on social media. She stated that Well 11 & 12 are Capital Assets and should be paid by assessments. Mrs. Everhart also stated that if Sheep Creek Water consolidated with the Phelan Pinon Hills Community Service, she would

not be concerned about being compensated for her shares. Mrs. Everhart stated "I do not feel the shares need to be bought out".

Shareholder, Randy Weber shared his concern regarding Sheep Creek Water Shareholders being taken advantage of with this merger. More information will be available at a Special Meeting in August 2019.

b) State Water Resources Control Board – Source Capacity Violation Update

1. Feasibility Study Alternative Plans - INFORMATION ONLY!

a) Alternative 1 – Drill Additional Wells (Assessments Required)

b) Alternative 2 – Consolidate Sheep Creek Water Company with PPHCSD

Mr. Zody explained that once we have all the information, then we can vote on whether or not to drill additional wells and keep Sheep Creek as a private water company or consolidate with PPHCSD. The State and also the CSD have both had to cancel meetings with Sheep Creek Water. Hopefully, Sheep Creek will have more information by August 2019, when we have a Special Stockholders Meeting. At this time Diane Hayball spoke again. When she attended the special engineering committee meeting, the CSD asked for an additional study of the system. She asked if we had found a company to do the study and what the cost would be. Mr. Nilsen stated that CRWA did an engineering report and at no cost to this company. If an additional study is required later, then it should be done by an independent, unbiased appraiser that is qualified to do an appraisal of this company. Mr. Zody reported that the State of California has extended the deadline until August 31, 2019. We will have a Special Meeting of the Shareholders sometime before then.

c) Updated Allotment Plan Mr. Zody stated that this plan will fluctuate with water production. Luanne Uhl explained that this item is to give the Sheep Creek Water staff authority to make changes to the allotment, as necessary, throughout the year. The process to lower the allotment can take substantial time by the time the Board approves and notification is sent to the Shareholders. This will allow the process to be quicker when it is needed. The allotment has always been approved by the Board after staff recommendations not approved by the Shareholders.

d) Well #12 Approval and Payment Options - INFORMATION ONLY!

1. Assessment - \$30.00 per share per year for 5 years

2. \$20.00 Base Rate Increase per Month per Meter Service for 4 years

3. Increase Water Rates an additional \$1.85 per hcf for 4 years

V. Procedures for Voting – Mr. Riffenburgh explained the procedures for the voting process.

VI. Election of Directors – Jim Watson moved to keep the same Board for 2019-2020. Mrs. Wolf seconded the motion. Motion carried. Michael Lewis nominated Karen Hardy for the Board of Directors. Maisy Parker moved to close the nominations for Board of Directors. Mary Watson seconded the motion. Motion carried.

Election Results

2019 – 2020 Board of Directors ~ A Total of Five (5)

*Andy Zody	4882	Elected
*Bob Howard	4781	Elected
*David Nilsen	4197	Elected
*Luanne Uhl	3893	Elected
*Kellie Williams	4743	Elected
Karen Hardy	1130	

Agenda Item 4a Well #11 Loan Re-payment

- | | |
|---------------------------------|------|
| 1) Assessment | 673 |
| 2) \$8.00 Base Rate | 0 |
| 3) \$5.00 Base Rate plus Tier 3 | 4161 |

Agenda Item 4c Updated Allotment Plan

Yes	3937
No	883

VII. Adjournment Andy Zody moved to adjourn the meeting. Luanne Uhl seconded the motion. Motion carried. The 2019 Annual Stockholders Meeting of May 11, 2019 was adjourned at 3:20pm. Thank you *Snowline School District* for the use of the facility.

Respectfully Submitted,

Kellie Williams
Secretary/Treasurer
Sheep Creek Water Company
Board of Directors