

Maury Mutual Water Company 64th Annual Meeting - April 1, 2017

2:30 PM at the Land Trust Building

Attendees:

Trustees: Jerry Balcom, Steve Brown, Stephen Hunter, Will Lockwood, John Martinak

MMWC Office & Meter Clerk: Kathie Balcom

Members & Guests: Mimi English-Koch, Jenifer Tapley, May Gerstle, John Gerstle, James Christensen, Ron Smothermon, Armen Yousoufian, Theresa Aguilera, Lilian Schork, Laurel Kuehl, Russ Carey, Glen Gray, Karen Lockwood, Grant Branstator, Michael Cochrane, Darren Lay, Robert Breen, Kari Davidson, Anne Terry, Allan Kaplan, Jean Veldwyk, Joel Walters, Shanti Escovedo, Bob Keller

Proceedings:

The meeting was called to order at 10:05 AM

Roll was taken by means of a sign-in sheet.

Steve Hunter (President) acknowledged an "Open Letter" had been received by the board and an undisclosed number of members. As per tradition, the letter was received the day before the Annual Meeting, long after the Meeting Agenda had been sent to the members. The board agreed to address concerns raised in the letter after the scheduled meeting. General rules of order were presented in hopes of an efficient use of everyone's time.

Approval of minutes:

Minutes from the 3/26/2016 Annual Meeting were distributed prior to the meeting. The minutes were approved with one revision. The minutes were revised to read "... members called for a continuation of the discussion at an additional meeting."

Report of the President & Finances - Steve Hunter:

- The Dept. of Health's conducted a routine Sanitary Survey (11/2016) of the system in November, 2016. Minor recommendations aside, the inspection recognized many improvements to the system since the previous inspection (2011). The Sanitary Survey Report noted improvements in the physical plant, management/operations and planning documents.
- MM's capital reserves continue to grow, with \$147,000 in the banks at the close of 2016. ~\$40,000 in capital improvements are tentatively planned for 2017. Current rates and assessments are adequate to meet these expenses without an increase planned for 2017. A number of members asked the board to continue with annual rate increases to prepare for big ticket expenses down the road (main replacements).
- A number of members asked when MMWC was last audited. Present and past board members could not answer the question. A suggestion was made to conduct an in-house audit with volunteers from the membership.

Report of the Community Hall Committee - Martinak:

- The volunteer committee (Martinak, Kathie Balcom, Richard Foulkes, John Gerstle, Nancy Giske, & Armen Yousoufian) found the following:
 - The building's state of disrepair presents more of a liability than an asset to MM
 - The lot, without water and septic, was appraised at \$16,000.
 - Possible uses for the site: water storage/pump station; office/workshop/storage
 - Cost of retaining ownership:

- \$20,000 to clear the site
 - \$1,400/yr taxes and groundskeeping (taxes likely to be lowered through appeal based on 2016 appraisal)
- Board feels it is in the best interest of the company to clear the site, and maintain ownership for future use.
- A member that resides next door to leaning structure argued against razing the building.

New Business:

- Changes Facing Group A Water Systems: Changes to rules and regulations were outlined:
 - County to begin charging "rent" for water lines occupying Right-of-way space.
 - DOH's updated water quality monitoring rules for coliform sampling, disinfection/chlorine residual sampling, and minimum chlorine residual levels for CT6 disinfection.
 - DOH now requires MMWC operator certification for Water Distribution Management, Cross-Connection Specialist & Water Treatment Plant Operator.
 - DOH updated monthly reporting requirements
 - Updates to EPA's Drinking Water Action Plan: increased reporting/assessment; stricter source water protection; reduction in risk of lead exposure, etc.
- Small Water System Management Program (SWSMP): The deficiencies noted in the Sanitary Survey of 2011 was the result MMWC's failure to keep up with increasingly stringent regulations. The DOH requires MM to develop a SWSMP to demonstrate the system's ability to achieve and maintain compliance with all relevant regulations. Implementation of the updated plan is the main reason for the much improved Sanitary Survey of 2016.
- Six Year Plan/Budgeting: The Six Year Budget (Section 3.2 of SWSMP) was reviewed. The spreadsheet compares projected income (water rates & assessments) to expected operating expenses, and projected capital improvements. The budget is not carved in stone, but is a long overdue tool for increasing MM's financial and operational capacity.

Election:

- 5 Year Term: Steve Brown was unopposed and re-elected to his seat.

The "official" meeting adjourned around 11:45 AM, but most stuck around to discuss issues raised in the "Open Letter". That discussion ended around 1:30 PM.

*The following "Open Letter" was received by MMWC Board on March 31, 2017. The issues raised were addressed during an informal discussion after the Annual Meeting had adjourned. Board responses have been inserted into the text in **bold**.*

OPEN LETTER

To: The Maury Mutual Water Company ("MMWC") Board of Directors

Bcc's: Numerous MMWC members

Item: Open letter to the MMWC board re: agenda for Saturday, April 1, 2017 annual meeting, issues of concern, and how they will be handled

From: James Christensen, member since 2015

John Gerstle, member since 1994 and past board president

Armen Yousoufian, member since 1981 and past board member

Dear MMWC board members:

As a matter of courtesy to you, this is advance notice of several concerns that we have, in order of relative importance. We hope that there will be an opportunity to discuss them at tomorrow's meeting.

- Our collective position on growth (adding more connections), especially as it relates to the 2010 State Supreme Court ruling about a "duty to serve" and the October 2016 Hirst ruling that makes well drilling much more onerous. These two rulings make it much more likely that we could be sued by someone wanting to add a connection. Would we fight such a lawsuit? This is something of broad interest to all members due to the cost of fighting a lawsuit with no guarantee of winning. Indeed, these rulings suggest that we could lose such a lawsuit. Is there any significant burden with going over the 100 connection limit? If so, please provide reference material about that.

"Duty to Serve" refers to a municipal water supplier's obligation to provide service to all new connections within their "retail service area", provided the system has adequate capacity and water rights, the request is consistent with local plans, and service can be provided in a timely and reasonable manner. As a non-expanding water system of <1,000 connections, MMWC does not have, nor is it required to define a "retail service area". MMWC is a water purveyor within a critical water service supply area. Applicants for water service within MMWC's service area must first request service from MMWC. As an existing water system,

MMWC has "the right of first refusal" if it cannot or will not provide water service in a timely and reasonable manner. MMWC's refusal to provide service allows the applicant to seek service from another water system or develop a new source of supply. This information is based on DOH publications and conversations with Richard Rodriguez, DOH Regional Planner.

- Related to the first issue, and probably just as important, is whether the Board of Trustees has acquired the relevant liability insurance. Whether we have it or not was not clear from the meeting last year.

MMWC is adequately insured.

- Financial reporting inconsistencies continue. Does the Board of Trustees need some outside help to get the books to balance, so that the amounts reported to us match what is reported to the IRS? It shouldn't be that difficult for someone with the right experience. Perhaps forming an audit committee could help in this regard. There is the related question of how much reserve should we have right now, given any planned maintenance or upgrades on the radar. It seems like we should establish a reasonable amount and perhaps tie increases to the inflation rate.

MMWC reports to the IRS through an outside accountant. The board is unaware of "reporting inconsistencies", but will look into it. Financial reserves and projected expenses were addressed during the Annual Meeting.

- The question remains of what to do with the community building. Given its history, doesn't it seem that it would have had water and septic at some point in the past? If so, and if they could be restored, perhaps that asset could be sold for a non-trivial amount.

There is no record of the Community Hall ever having been issued a membership (water share), or having a septic system.

- There is the question of how the annual meeting is conducted. Last year there was not enough time for everyone to have a chance to express their opinions. And then the promised follow-up meeting was simply cancelled, which was a disappointment. Why was it cancelled?

The 2016 Annual Meeting was disrupted by one member's personal agenda. The lack of order hinders the meeting's effectiveness, and the ability to conduct company business. Actions have been implemented to make for a more

productive use of time at the 2017 Annual Meeting. A "follow-up meeting" was proposed by some members at last years meeting. The board did not "promise" a meeting with an undefined agenda, but sent the following message to all in attendance at the 2016 Annual Meeting:

"Lastly, a "Special Meeting" was called for at the end of the meeting by some members to continue the discussion. Without a more specific agenda, a majority of the board did not support the meeting. We are unable to call a special meeting unless the provisions of the by-laws are followed. We provide them here for interested members. Article III of the By-laws reads as follows.

ARTICLE III

SPECIAL MEETINGS

Section 1. Special meetings of this company shall be called by the president at the written request of not less than 25 percent of the members in good standing, or by a majority of the trustees.

Section 2. Written notice of the time, place and purpose of any special meeting shall be mailed to each member at least ten (10) days prior to said meeting."

No action was taken by the members.

- We continue to have non-optimal conflict of interest issues, with a Board member and a Board member's spouse serving as employees. This goes against standard best practices and seems simple to resolve one way or the other. Perhaps the easiest way to address the more important of these conflicts would be to replace John Martinak with a new board member and have John continue to attend board meetings in his role of water manager.

To avoid a conflict of interest the board has consulted with an attorney to review the situation, follow published IRS and Washington State guidelines for non-profits, as well as MMWC's "Board of Trustees Recusal Policy":

"Whenever an issue comes before the Board such that an individual Board member would likely benefit materially from decisions made by the Board in a way that would not benefit equally the general membership of the Company, that Board member must recuse him or herself from the discussion and vote. If at least two Board members believe that there are grounds to force the recusal of another member, that recusal shall be binding."

Copies of this communication will be made available at the meeting on Saturday.