

Baxter Mutual Water Company

Emergency Meeting January 17, 2012

Minutes

Subject of meeting: Antelope Valley Water Adjudication & Financing

Shareholders in attendance:

Doug Davis, President
Larry Gorden, Vice President
Eddie Zavala, Treasurer
Terry & Molly (Secretary) O'Callaghan
Andy Tolman
Michael Smith
Dan Gary
Justin Serene

Shareholders not in attendance:

Charles and Kathy Cooke
Andriel Scott
Francisco Martinez
Claude & Viki Newman
Dave & Stephanie Craig

Summary:

Baxter will pay \$11,000 to join AV United Mutual group plus \$140 per month to be represented by the group in the AV Water Adjudication case. Water fees will be increased by \$25 per month per connection, resulting in a water fee increase from \$75 to \$100 per month for property owners with one share. The fee increase will take effect with February payment. Water will be shut off for delinquent accounts with appropriate advance notification, to be determined by the Board of Trustees.

Minutes:

Meeting was called to order by Doug Davis at 7:35 PM. Purpose of meeting was to discuss Baxter joining the AV United Mutual Group, an organization of 15 Mutual Water Companies represented in the Antelope Valley Water Adjudication court case. Larry Gorden gave a brief history of the court case and Baxter involvement as follows:

The court case began in 1999. In 2005, notices were sent out to all property owners who pump water or who have property that may pump water in the future. Property owners, including Baxter Mutual Water Co., were invited to join the court case. Baxter meetings were held to inform members of the case and to decide if Baxter should join the case. At that time, A.V. United Mutual was formed to represent mutual water companies as a single unity. Baxter was invited to join but shareholders decided not to because of cost and because they didn't know the consequences of not joining the group or not seeking legal representation for the case.

Summer 2011. The court ruled that Antelope Valley was in an overdraft situation (more water being pumped from the ground than was being replenished). The court ruled that Antelope Valley would be limited to 110,000 acre-ft per year. Estimate of current pumping was 150,000 to 180,000 acre-ft per year. This meant that Antelope Valley water pumpers must reduce the amount of water pumped. The court ordered parties in the case to mediate and attempt to develop a solution for reducing pumping

volume. So far, mediation has failed because parties are in disagreement on how this is to be accomplished.

December 2011. Larry Gorden was called by the Lancaster Utilities Manager informing him that Baxter should submit water pumping history to the court in order to be allocated pumping rights in the court settlement. After talking to a couple of lawyers and experts in the case, it was determined that we should submit our quantity of water pumped with the court in order to maintain our right to pump water. The consequence of not joining the court case would be that after settlement, all water pumped by Baxter would be overdraft and we would be charged (fined) for overdraft.

Attorney Mike Davis helped Larry file Baxter's claim for water pumping rights for a charge of \$500. Mike Davis is attorney for AV United Mutual. Larry filed a claim of 50 acre-ft per year based on electrical meter readings and a few days of pumping volume with newly installed flowmeter. After filing Baxter's claim, Baxter became a party in the case.

January 2012. Larry was informed that all corporations in the case, including Baxter, must be represented by an attorney. Attorney Mike Davis said he could not represent us because it would be a conflict with AV United Mutual that he represented. That left Baxter with the need to find representation by an attorney. Mike Davis suggested Larry call the head of AV United Mutual, John Ukkestad.

January 16. Larry called John Ukkestad and he said Baxter could probably join AV United Mutual but we would have to pay a fee to join because we had not been paying into them for the past 7 years and all the other member mutual companies had been paying. AV United Mutual had a planned meeting the next day at 7:00 PM and John invited Baxter to attend and pursue the possibility of joining the group.

On January 17, Larry Gorden and Eddie Zavala attended the meeting of AV United Mutual. Baxter was invited to join the group but would have to pay an "entry fee" of \$11,000 plus \$140/month beginning in January. \$1,000 of the entry fee would be required to get the group membership amended to include Baxter. Baxter would be allowed to initially pay half the \$11,000 entry fee (\$5,500) and the remaining \$5,500 in subsequent months with schedule of payments to be determined.

This Baxter emergency meeting was called to inform shareholders and to get concurrence for joining AV United Mutual.

Eddie Zavala gave a summary of Baxter Financial status. We can afford to join AV United Mutual but it would take nearly all of our reserves and water fee increase would be required. We must rebuild our reserve for future emergencies.

All attendees agreed that we should go ahead and pay to join AV United Mutual and increase water fees by \$25 per connection. That means water rates for property owners with one share would increase from \$75 to \$100 per month. The increase will take affect for February payments.

We decided to propose to AV United Mutual that we pay the initial \$5500 entry fee and pay the rest in \$1,000 monthly payments to prevent getting too low on reserves.

We discussed delinquent accounts and the need for customers to catch up and keep payments current. The board will take care of it and shut off water if necessary.

Meeting was adjourned at 8:40 PM.

Post Meeting notes by Larry Gorden, next day, February 18.

AV United Mutual director John Ukkestad said he made a mistake with the \$140/month cost. They charge \$10 per parcel, not \$10 per connection. We have 14 connected parcels and two parcels that aren't connected for a total of 16 parcels with company shares. Thus the cost will be \$160/month. This increased \$20/month cost to Baxter will not affect the customer water fee increase we agreed on.