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SUNNY SLOPE WATER COMPANY
ANNUAL MEETING OF SHAREHOLDERS

PASADENA, CALIFORNIA
MONDAY, MARCH 20, 2023

REPORTED BY:
AMBER DAWN CASTANEDA, RPR, CRR
CSR NO. 7640

1 COMPANY REPRESENTATIVES PRESENT AT MEETING

2

3 DIRECTORS:

4

5 STEVEN R. SEILER, PRESIDENT

6 LAP T. NG, VICE PRESIDENT

7 MARK J. SEDLACEK, SECRETARY

8 PETER C. JEONG, TREASURER

9 JOHN L. SHAW, ASSISTANT SECRETARY/TREASURER

10

11

12 OTHER SUNNY SLOPE REPRESENTATIVES:

13

14 KEN TCHENG, VICE PRESIDENT AND GENERAL MANAGER

15 TROY HOLLAND, SUPERINTENDENT

16 NACHO MAGALLON, IT AND FACILITIES

17 KAREN MAAS, OFFICE LEAD AND HR

18 MATT HSU, ACCOUNTING

19 JOHN LANGMAN, PROJECT AND BUSINESS MANAGEMENT

20 PAUL KAYMARK, CPA, NIGRO & NIGRO, PC

21 JOHN L. SHAW, ATTORNEY AT LAW

22

23 KAREN MAAS, INSPECTOR OF ELECTION

24 PATTIE ANN DALESSANDRO, ANNUAL MEETING COORDINATOR

25

PASADENA, CALIFORNIA

MONDAY, MARCH 20, 2023

10:00 A.M.

MR. STEVEN R. SEILER: I would like to call the meeting to order.

At this moment, at this time, I will appoint Amber Castaneda as our court reporter.

I am Steve Seiler, the president of the board.

I would like to thank you all for coming, and we appreciate the fact that you've taken your time to come here and see what we are doing.

It's been a difficult year, like for everybody, not just the water district. So I just want to just welcome you all, and thank you for being here.

Okay. I would like to introduce our board members first. I'm Steven Seiler.

At this end, we have Lap Ng, who is our first vice-president.

Mark Sedlacek is ill and couldn't be with us today. He is our secretary.

Our treasurer is Peter Jeong on my left here.

And John Shaw, our assistant secretary, assistant treasurer will act as secretary today.

Our office lead will assist us in the -- as

1 inspector of the election. And the inspector of the
2 election is Karen Maas.

3 To the right over here is John Shaw -- John
4 Shaw -- I mean Ken Tchong, who is our vice-president and
5 general manager.

6 At the back is Troy Holland, who is our
7 superintendent.

8 Today our business partners who are with us
9 today, Aida Babayan of UBS.

10 And on the line and listening to us is Paul
11 Kaymark of CPA, Nigro & Nigro. They are our auditors
12 and will be able to answer questions, if you have them
13 of them.

14 Would the secretary read the official notice of
15 the annual meeting?

16 MR. JOHN L. SHAW: The notice of the 128th
17 Annual Meeting of Shareholders of Sunny Slope Water
18 Company. Notice is hereby given that the annual meeting
19 of the shareholders of Sunny Slope Water Company, a
20 California corporation, will be held at the office of
21 the company, located at 1040 El Campo Drive, Pasadena,
22 California 91107, in the County of Los Angeles, State of
23 California, on Monday, the 20th of March, 2023, at
24 10:00 a.m. The purpose of this meeting is for the
25 election of directors and transaction of other business

1 as may come before said meeting in determination of any
2 matters postponed at said meeting from previous
3 meetings.

4 That's the notice.

5 MR. STEVEN R. SEILER: Thank you very much.

6 I have appointed Karen Maas the inspector of
7 election.

8 The inspector of election, can you announce the
9 number of shares?

10 MS. KAREN MAAS: 2,632.

11 MR. STEVEN R. SEILER: Okay.

12 MR. JOHN L. SHAW: The number required for a
13 quorum is 2,600, so we have a quorum, President.

14 MR. STEVEN R. SEILER: Thank you very much.

15 Can you read the minutes of the 2022 annual
16 meeting?

17 MR. JOHN L. SHAW: The minutes of the 2022
18 annual meeting are 19 pages long. Request a waiver of
19 the reading of those minutes at this time.

20 MR. STEVEN R. SEILER: If nobody objects, I
21 will waive the reading.

22 Okay. I need a motion to approve the minutes
23 of the 2022 meeting.

24 MR. PETER C. JEONG: So moved.

25 MR. JOHN L. SHAW: I'll second.

1 MR. STEVEN R. SEILER: Thank you.

2 I would like the reading of the General
3 Manager's Report.

4 MR. KEN TCHENG: Good morning, and welcome to
5 our annual shareholders meeting. As the old saying
6 goes, when it rains, it pours.

7 We have received good rain these last couple of
8 months, and it has provided some relief, as we are no
9 longer in an emergency drought condition. The rain and
10 snow will help refill the above-ground reservoirs, but
11 ground basins are slower to recharge. So we'll see
12 where the water table will be in the spring.

13 As a groundwater producer, we encourage
14 continued conservation. And we would like to thank
15 shareholders for their support of this matter.

16 Our company continues to operate well. We are
17 fortunate to have dedicated and hard working employees
18 ensuring we deliver quality water and services to our
19 shareholders. I thank them for their contributions.
20 And thanks to our board of directors for making sure we
21 have the resources and support to do our jobs well.

22 Water production for 2022 was seven and a half
23 percent less than the prior year, so conservation.

24 Water quality was taken throughout the year.
25 All samplings met Federal and State health standards.

1 The Basin Watermaster costs for 2022 totaled
2 \$961,309.

3 And as mentioned by the water table, the
4 Baldwin Key Well is the water table measuring baseline.
5 With the amount of rainfall we had since this fiscal
6 year, the water table is at 189.7 feet as of March 3rd.
7 However, that is about eight feet below the same period
8 last year. So we'll see when the spring, when the snow
9 starts melting and see if it was recharged. It should
10 recharge, so we'll see if it rises somewhat.

11 The Los Angeles County property taxes for the
12 year was \$16,051.

13 Insurance costs for the year were at \$92,217.

14 And purchase power in 2022 was \$567,303.

15 So last year, we had -- I want to highlight
16 four accomplishments.

17 We installed 3,000 linear feet of mainline
18 piping on Burton Street as part of an ongoing multiyear
19 plan to modernize our aging infrastructure. You'll see
20 some pictures depicting the construction.

21 We did a major rehabilitation of reservoir
22 number one. It was complete late last year. It was a
23 major undertaking. This rehabbed reservoir was around
24 99 years old. In addition to that, we refurbished our
25 booster number four and installed a new 24-inch valve.

1 So this was a large, major undertaking for us.

2 Thirdly, they -- during the year, the State
3 mandated a 20 percent reduction in water consumption.
4 We initiated a conservation effort which has resulted in
5 a sustained 13 percent reduction. And around this
6 property, we have ten acres, we have installed drip
7 irrigation to support that conservation, as well as a
8 lot of messages out to our shareholders about
9 conservation as well.

10 The last accomplishment for the year is we
11 engaged in a campaign to increase the use of electronic
12 proxy, which netted us 16 percent more usage. What that
13 means to us is that it's reduced our printing and
14 mailing costs by about \$1,200. So if you receive
15 proxies in the emails, that's what electronic proxy
16 saves on printing and mailings.

17 Going into 2023, we have six key projects that
18 we're working on.

19 One is updating our master plan. That's about
20 a ten- to 15-year plan. So that's ongoing right now.

21 As we prepare to rehab reservoir number four,
22 we have to design or engineer a bypass, because this is
23 a larger reservoir for us. It's a six million gallon
24 reservoir. So there is engineering design for the
25 bypass.

1 We have a, what we call a Microvi treatment
2 system. It's a nitrate treatment system. We're going
3 to be installing a Cla-Valve and some monitoring
4 components to improve the influent water flow
5 efficiency.

6 We are also looking at updating our SCADA
7 system. SCADA stands for Supervisory Control and Data
8 Acquisition system. It is kind of our automation for
9 controlling all of the pumping of the water and
10 monitoring to see if it's functioning properly. Our
11 system has been in place for over ten years, and we're
12 looking at upgrading the system.

13 And lastly, we want to continue water
14 conservation efforts. Even though we have all these
15 rains, we are 100 percent ground basin water dependent.
16 And the basin over the last 15 years has been mostly
17 drought, so it will take some time to recharge the
18 basin.

19 That's my report, Mr. President.

20 MR. STEVEN R. SEILER: Thank you, Ken.

21 Can we have a motion to approve the Manager's
22 Report, the General Manager's Report?

23 MR. HARWOOD WRIGHT: So moved.

24 Harwood Wright.

25 MR. STEVEN R. SEILER: Thank you.

1 Do we have a second?

2 MS. MARGARET HASKIN: Yes. Second.

3 MR. STEVEN R. SEILER: Thank you.

4 THE REPORTER: I need names.

5 MS. MARGARET HASKIN: Margaret Haskins.

6 MR. STEVEN R. SEILER: Can you give your name,
7 sir?

8 MR. HARWOOD WRIGHT: Harwood Wright.

9 MR. STEVEN R. SEILER: Yeah. That's what I
10 heard.

11 And ma'am, your name.

12 Who seconded.

13 MS. MARGARET HASKIN: Me.

14 MR. STEVEN R. SEILER: Yes. May I have your
15 name for the court reporter?

16 MS. MARGARET HASKIN: Margaret Haskin.

17 MR. STEVEN R. SEILER: Sorry. I apologize. I
18 did not hear that.

19 That's fine. Thank you very much.

20 All in favor?

21 THE AUDIENCE: Aye.

22 MR. STEVEN R. SEILER: Opposed?

23 Motion carries.

24 Okay. At this time, I would like our
25 treasurer, Peter Jeong, to present the Annual Report.

1 Go ahead.

2 MR. PETER C. JEONG: Good morning, ladies and
3 gentlemen.

4 It's my pleasure to present to you today our
5 128th Annual Report. This report is available at our
6 Sunny Slope Water Company website or a copy may be
7 obtained from the front office as you leave.

8 MR. STEVEN R. SEILER: Very good.

9 Okay. I would like to have a motion.

10 Can we have a motion to approve the Annual
11 Report.

12 MR. HARWOOD WRIGHT: So moved.

13 MR. STEVEN R. SEILER: Thank you, Mr. Harwood.

14 Okay. Do we have a second?

15 MR. JAMES BORTOLOTTI: James Bortolotti.

16 Seconded.

17 MR. STEVEN R. SEILER: Thank you very much.

18 Okay. All in favor?

19 THE AUDIENCE: Aye.

20 MR. STEVEN R. SEILER: Motion carried.

21 Opposed?

22 Motion carries.

23 Okay. Nominations are now in order for five
24 directors for the upcoming year, for the ensuing fiscal
25 year. I will read off the qualifications. They should

1 be up in back.

2 A, shall be a shareholder of the Sunny Slope
3 Water Company.

4 B, shall own in the name of said director one
5 or more shares of stock in the Sunny Slope Water
6 Company.

7 C, shall for two years prior to the beginning
8 of and throughout his/her term of office own and occupy
9 property or premises within the territory serviced and
10 supplied by Sunny Slope Water Company, and shall be a
11 purchaser of water of said company for use of said
12 property or premises.

13 D, shall not be an officer, agent, employee, or
14 otherwise receiving compensation from the said
15 corporation, except as set forth in Article III,
16 Section 19.

17 Okay.

18 MR. JOHN L. SHAW: So, I'm the chairman of the
19 proxy committee. And so I'm going to name the
20 candidates that we have.

21 Peter Jeong, Lap Ng, Mark Sedlacek, Steven R.
22 Sieler, John L. Shaw. Those are the candidates.

23 MR. STEVEN R. SEILER: Thank you very much.

24 Do we have any nominations from the floor?

25 Hearing none, I will close the nominations at

1 this time.

2 All the nominations are listed, I believe. Are
3 they up there yet?

4 MS. MARGARET HASKINS: They were. They went
5 away.

6 MR. STEVEN R. SEILER: Okay. For those of you
7 who are here to vote, Karen, will you collect the
8 ballots and tabulate for us?

9 MS. KAREN MAAS: Yes.

10 MR. STEVEN R. SEILER: Okay. While the
11 inspector of elections is tabulating the votes, we will
12 be happy to take questions from the floor.

13 When you have a question, please state your
14 name, so the court reporter can put that into the
15 record.

16 So, questions?

17 MR. FRED NELSON: Is this the
18 question-and-answer period now?

19 MR. STEVEN R. SEILER: Yes.

20 MR. FRED NELSON: I'm Fred, big Fred.

21 I'm curious, on page four, big change in the
22 value of your investments. And I looked at it again on
23 page ten. And I'm just curious what the benefit is to
24 cause this problem?

25 MR. STEVEN R. SEILER: I think I'll direct this

1 question to Aida Babayan.

2 MS. AIDA BABAYAN: I'm happy to answer that
3 question.

4 I'm Aida Babayan. I'm Sunny Slope's financial
5 advisor.

6 The make-up of the portfolio with Sunny Slope,
7 and this has been the case for at least ten, 12, 13
8 years, is approximately one quarter of the portfolio in
9 equities and 75 percent in bonds. And the bonds are
10 individual bonds, and they are intermediate term, and
11 they are investment grade quality.

12 In this unusual year of 2022, the Federal
13 Reserve raised rates four and a half times the rate from
14 all the way down to zero to 4.75. It is historically
15 unprecedented. We have not seen that kind of aggressive
16 move up in interest rates in the last 30 to 40 years.

17 As a result, we continue to get our interest
18 income, regardless of what happens to the value of the
19 existing bonds, which generates, approximately, \$315,000
20 of interest income every single year. And because these
21 are individual bonds, you are getting the par back or
22 the principal back at the time of the trade.

23 A year like 2022 caused the values of the bond
24 portfolio, the current value of the bonds to go down.
25 And that is what's being reflected in that Annual

1 Report.

2 MS. MARGARET HASKINS: This is very current, in
3 other words?

4 MS. AIDA BABAYAN: This is very current. This
5 is what's happened in the year 2022.

6 MS. MARGARET HASKIN: No. I get it.

7 MS. AIDA BABAYAN: Now, 2023, which, you know,
8 is this year, so this is not a reflection of last year,
9 the portfolio is up almost two percent. So it's
10 beginning to come back up, but it will take time. And
11 the value of those bonds won't completely come back up
12 until the Federal Reserve determines at some point to
13 start reducing rates.

14 MS. MARGARET HASKIN: But they're still
15 raising.

16 MS. AIDA BABAYAN: Correct.

17 The anticipated date of that would be in about
18 nine months. Beginning of 2024, possibly they would
19 start reducing rates. That's the anticipated date.

20 MR. FRED NELSON: What is the duration of the
21 portfolio of the bonds? Is it 20 years? Ten years?

22 MS. AIDA BABAYAN: The duration is,
23 approximately, eight.

24 MR. FRED NELSON: Eight years?

25 MS. AIDA BABAYAN: That's the duration.

1 Maturity is ten to 12.

2 MR. FRED NELSON: And how do you protect
3 against inflation with a bond base twice a year and the
4 currency values everywhere you go, stores, water. I
5 don't understand.

6 MS. AIDA BABAYAN: The way I can protect on
7 inflation is as a bond matures, I am able to go in and
8 buy at a higher interest rate, because these bonds are
9 laddered.

10 MS. MARGARET HASKIN: I was going to ask that.

11 MR. FRED NELSON: But you have to wait eight
12 years to get your principal back. And during that
13 eight-year time, there is inflation. I can tell you,
14 everybody in this room is facing inflation. Every time
15 I go to the store, it costs more. So I'm not sure how
16 the bonds protect you against inflation. Curious if
17 that is for a long time.

18 The Feds raised interest rates many years ago,
19 and then a \$100,000 CD, if you've got one percent a
20 month compounded. So I'm just curious as to do the
21 equities pay dividends? Did they raise them?

22 MS. AIDA BABAYAN: Equities do pay dividends.
23 And certainly at certain periods of time, they can
24 determine to raise the dividends. Also, should the
25 equity markets start to perform once inflation is

1 controlled, the 25 percent that is in equity, the
2 theoretical answer is as the markets go up, the 25
3 percent that are in equities would go up. That combats
4 inflation when the equities go up. That is why we don't
5 have 100 percent bonds that have a fixed interest rate.

6 MR. FRED NELSON: But equity increases the
7 dividends, like Johnson & Johnson and Chevron. Your
8 cash flow is increasing and it pays every quarter.

9 I'm just concerned how the decision is made to
10 be 80 percent or 75 percent fixed income and only 25
11 percent is equities. It's just confusing here. It's a
12 big number in the balance feature.

13 MS. AIDA BABAYAN: Today is a big number at 75
14 percent. However, we are working with a conservative
15 portfolio, and a conservative portfolio tends to have
16 more bonds than stocks. And that is why we have, in the
17 equity side we have a value, a value slant on the equity
18 side, which has Johnson & Johnson, which does have
19 companies that give a nice dividend. We are
20 underweighted in technology. We are overweighted in
21 value with companies that give a good dividend that will
22 raise dividends in the future.

23 MR. FRED NELSON: And I'm curious, who made the
24 definition that fixed income is a good investment,
25 when it's facing inflation and it's --

1 MS. AIDA BABAYAN: Historically, if you look at
2 the beta of a bond portfolio, the beta which is the
3 element of risk, tends to be a lower factor than the
4 beta of an equity component.

5 So historically, the bonds will give us
6 interest every six months. Whether the markets are up,
7 whether the markets are down, your bond portfolio is
8 giving you \$300,000 of income. That is inherently a
9 more moderate position than an equity that may go up or
10 may go down.

11 MR. FRED NELSON: But the equities that we have
12 that raise dividends is a different story.

13 MR. STEVEN R. SEILER: Okay.

14 MS. MARGARET HASKIN: I have a question.

15 MR. STEVEN R. SEILER: Just a minute.

16 We're going to interrupt for a minute. We'll
17 go back. There will be plenty of time for more
18 questions.

19 We would like to go ahead and finish the vote
20 part of it, and then we'll be happy to take anybody who
21 has questions, we'll be happy to answer them.

22 MS. KAREN MAAS: 2,672.

23 MR. JOHN L. SHAW: Across the board?

24 MS. KAREN MAAS: Yes.

25 MR. STEVEN R. SEILER: Okay. So our, the

1 inspector of election has reported that each director
2 received 2,672 votes, and the -- yeah. They are being
3 displayed.

4 And can I have the sheet? Thank you.

5 Thank you.

6 So are there any challenges to the election?

7 Okay. Being none, I declare the election
8 approved by the shareholders present.

9 I would also at this time like to entertain a
10 motion to ratify and approve the official acts of the
11 board of directors and general manager.

12 Do we have a motion?

13 MR. PETER C. JEONG: I'll move.

14 MR. HARWOOD WRIGHT: So moved.

15 MR. STEVEN R. SEILER: Thank you very much.

16 Do we have a second?

17 MS. MARGARET HASKIN: I second it.

18 MR. STEVEN R. SEILER: Thank you.

19 Call for questions. I'm calling for questions.

20 MR. JOHN L. SHAW: You've got the motion. So
21 vote for the approval.

22 MR. STEVEN R. SEILER: Excuse me. I do need a
23 vote for those who approve of the, approve the
24 finalization of the election.

25 MR. JOHN L. SHAW: No. No. It's for this

1 right here. President.

2 MR. STEVEN R. SEILER: The official act.

3 That's right. I am. Thank you.

4 We have a motion to, the motion to approve the
5 official acts of the board of directors.

6 We have a motion and a second.

7 All in favor?

8 THE AUDIENCE: Aye.

9 MR. STEVEN R. SEILER: Any opposed?

10 Motion carries. Thank you.

11 Thank you, John. I screwed that one up.

12 Okay. We're going to call for more questions.

13 Let's go ahead and finish the questions.

14 Now, more questions?

15 MS. MARGARET HASKIN: Do your bonds ever get
16 called?

17 MS. AIDA BABAYAN: I select bonds that don't
18 get called.

19 MS. MARGARET HASKIN: What types are these
20 bonds? Municipal water companies? Water districts?

21 MS. AIDA BABAYAN: They are corporate bonds.
22 It's a variety of corporate bonds, and it's distributed
23 in every kind of sector.

24 MS. MARGARET HASKIN: The different sectors.

25 MS. AIDA BABAYAN: And that's very important.

1 MS. MARGARET HASKIN: Of course.

2 MS. AIDA BABAYAN: So, basically, you're going
3 to have drug companies, you're going to have technology
4 companies, you're going to have financial companies,
5 you're going to have utility companies. Take a look at
6 all of your sectors of let's say the S&P, and I've
7 divided these up in all of these different sectors. So
8 there is no overweight in any one sector. And they're
9 all S&P 500 companies. They're all high quality.
10 They're all S&P A-rated companies. A- or AA-rated
11 companies.

12 MS. TIANXIAO PENG: Hi. This is Tianxiao Peng.
13 First time to attend a meeting.

14 So first question, I want to know, you are the
15 advisor of --

16 MS. AIDA BABAYAN: Of Sunny Slope. I'm the
17 financial advisor for Sunny Slope.

18 MS. TIANXIAO PENG: So how do we select a
19 company and advisor? What is the process? How is the
20 select an advisor to manage such a big portfolio?

21 MR. KEN TCHENG: They've been our advisor. Our
22 reserves are invested, and Aida represents them, is
23 hired to invest our money for us.

24 MS. TIANXIAO PENG: What's the hiring process?

25 MS. MARGARET HASKIN: How did you hire her?

1 MS. TIANXIAO PENG: Yeah. There is so many
2 companies, I don't know which company.

3 MS. AIDA BABAYAN: I am with UBS. It is in the
4 news today.

5 MS. TIANXIAO PENG: Yes.

6 MR. STEVEN R. SEILER: The board, basically,
7 interviews a variety of people and makes the decision on
8 who they feel comfortable with. The board of directors
9 hired her.

10 MS. TIANXIAO PENG: Okay.

11 MR. JOHN L. SHAW: We did that at a time when
12 there was a time when the only thing we invested in were
13 certificates of deposit. And back in the '80s and '90s,
14 that worked out very well. But when you got no
15 interest, that did not work out so well. So that's at
16 the point where we decided to do some investing.

17 MR. STEVEN R. SEILER: And additionally, the
18 other problem that came in on that was as our reserves
19 grew, in those days we would only have \$100,000 that was
20 insured. And we were very careful to make sure that we
21 were following the rules where all of your money was
22 safe or the company's money, our money was safe in its
23 investment. Because the FDIC would only, in those
24 days --

25 MS. MARGARET HASKIN: They just changed it with

1 COVID.

2 MR. STEVEN R. SEILER: Yeah. Well, it changed
3 actually before.

4 MS. AIDA BABAYAN: In 2008, the \$100,000 became
5 \$250,000. And they are in talks this week of
6 potentially increasing again the FDIC insurance amount.

7 MR. STEVEN R. SEILER: But that was back in
8 2008 that it changed to \$250,000.

9 MS. TIANXIAO PENG: Okay. So my next question
10 is in this treasury report, I only see expenses. I
11 didn't see how much we pay for this advisor.

12 May I know where I can find the fee we pay for
13 these advisors? Because it is such a big portfolio.

14 MR. STEVEN R. SEILER: For this advisor --

15 MS. AIDA BABAYAN: I do not charge an advisory
16 fee, because most of these assets come in and they just
17 stay in the portfolio. There is not a lot of turnover.

18 Should there be an influx of funds, they get
19 invested, so it is done on a commission basis. But the
20 objective of these portfolios are buy and hold, and not
21 to do a lot of movement around.

22 When a bond matures, we will buy another bond.
23 When cash comes in, we make sure that the allocation of
24 the 25 percent, 75 is enacted. So it is on a
25 transactional basis.

1 MR. LAP T. NG: Commission basis.

2 MS. TIANXIAO PENG: On page 13 is an investment
3 line of credit I see from December 2022. It is saying
4 this is a variable rate 2.644. I want to know for the
5 whole year of 2022 how the interest rate be calculated
6 and what is the year-to-date rate for this line of
7 credit?

8 MR. KEN TCHENG: It's a variable rate. I can
9 tell you that the current rate is 7.23 percent.

10 MS. AIDA BABAYAN: Because it's taking a one
11 month LIBOR and it's adding another two, approximately,
12 on a margin.

13 MS. TIANXIAO PENG: It's super high. So I want
14 to know what is this decision-making process? Why we
15 keep such a big loan balance?

16 MS. AIDA BABAYAN: We did a short-term SBL with
17 the objective as funds come in from one of those sources
18 to assertively reduce this loan. And we just made a
19 very, very large capital payment to reduce that loan.
20 And the objective is over a very short period of time to
21 eliminate the loan.

22 It was offered to provide the loan at a fixed
23 rate. But the way those programs worked is that there
24 was -- you would have to commit for three years, four
25 years, five years, six years to the loan. Our objective

1 was shorter term. The objective was yes, there will be
2 some fluctuations in interest rates in this
3 extraordinary nine-month period of the year in 2022.
4 But the objective is to pay that down sooner than later,
5 so that you don't have -- our objective is not five
6 years or ten years to be holding on to these loan
7 values. Absolutely not. If that had been the case, we
8 would have locked a low interest rate a year ago. But
9 the objective was to get rid of this loan as soon as
10 possible. It was a bridge. It was interim.

11 MS. TIANXIAO PENG: So based on this interest
12 rate year-to-date, I assume it is \$8,000 interest cost
13 and I didn't see any in the treasury report, so I want
14 to know where we can see how much interest cost we pay.

15 MS. AIDA BABAYAN: And that calculation would
16 probably be a very accurate calculation for the month of
17 March of 2023. The calculations that are listed here
18 are for the calendar year of 2022.

19 MS. TIANXIAO PENG: Which rely on treasury
20 report we can see this interest to cost?

21 MS. AIDA BABAYAN: The statements for December
22 of 2022 will show a month-to-month of what the interest
23 expense is on that SBL loan.

24 MS. TIANXIAO PENG: Okay.

25 MR. KEN TCHENG: It's in the report.

1 MR. LAP T. NG: Let me emphasize. We took that
2 loan because last year we had a lot of capital projects,
3 as you can see.

4 MS. AIDA BABAYAN: It's kind of a one-time
5 scenario.

6 MR. LAP T. NG: Like I said, we did a lot of
7 infrastructure improvement. And instead of cashing out,
8 going to our reserve, cashing out the bonds, which we
9 will lose money, we took a loan. And we know the
10 interest is high, but we don't plan to keep this loan
11 for very long. That's our first priority is to pay off
12 the loan. So any excessive additional funds that we
13 have, we will pay back that loan immediately.

14 Ken, I believe we just paid back \$250,000 just
15 last month.

16 MR. KEN TCHENG: Yes.

17 MR. LAP T. NG: So we will continue doing that.

18 Like I say, it's not going to be a long-term.
19 I would say probably within these two years, we'll pay
20 it off. Yeah. Maybe one or two years, we'll pay it
21 off. But that is our first priority, to reduce the loan
22 or to pay it back.

23 MS. AIDA BABAYAN: And we just took this last
24 year. We started with a rate of about four percent.
25 And four percent as a bridge loan seemed reasonable in

1 the short-term. And it is just in these last six months
2 that there has been an acceleration of LIBOR, there is
3 an acceleration of overall interest rates, and our
4 objective is to aggressively pay it down.

5 MS. TIANXIAO PENG: My concern is to the Annual
6 Report. It is saying not four percent, 2.644. And we
7 all know, seven times interest would increase. It won't
8 be that low. And there is so many commercial loan,
9 equipment loan can have much, much lower interest rate.

10 I didn't question UBS's reputation, but it is
11 an investment bank, not a commercial bank, not a loan
12 lender. So there is so much solution. We have lower
13 interest rate, not an investment line of credit.

14 MR. STEVEN R. SEILER: Okay. Thank you very
15 much.

16 Do we have any other questions?

17 MR. FRED NELSON: Where does it say on page ten
18 25 percent is an equity? I don't see that at all. It
19 says those ETFs and mutual funds. It doesn't say
20 individual companies.

21 MS. AIDA BABAYAN: ETFs and mutual funds would
22 be the equities. If we just add the total there, divide
23 it by the ending number, it should be approximately 25
24 percent. It could vary one percent this way or that way
25 because of the time, it's one time period.

1 MR. FRED NELSON: So you're not buying
2 individual stocks?

3 MS. AIDA BABAYAN: I am not buying individual
4 stocks.

5 MR. FRED NELSON: You're buying mutual funds --

6 MS. AIDA BABAYAN: They're primarily ETFs,
7 which have an expense ratio of --

8 MR. FRED NELSON: So the board approves the
9 fact that you don't buy individual companies, that you
10 can buy mutual funds in exchange rate, instead of buying
11 a Chevron or a Johnson & Johnson, and they are happy
12 with the fact that there may be backup fees on those and
13 that's okay?

14 I'm just curious. It's not very well spelled
15 out. So the 25 percent is invested in funds of some
16 type, not in individual companies.

17 MS. AIDA BABAYAN: Mutual funds, like American
18 Funds. I'm sure all of you are familiar with American
19 Funds. Mutual funds, like Putnam. ETFs are at
20 Vanguard. Vanguard is a very reputable exchange rate of
21 funds. ETFs have a management fee of less than ten
22 bases points.

23 MR. FRED NELSON: Because I'm just trying to
24 make sure that they are not investing in individual
25 companies which may be better than what you are doing

1 now. I don't know.

2 MR. STEVEN R. SEILER: No, we are not.

3 MR. FRED NELSON: I'm sorry. He made a
4 decision to buy exchange graded funds and mutual funds
5 over that 25 percent making investments in individual
6 companies to pay dividends in the range of --

7 MS. AIDA BABAYAN: Your diversification is
8 minimized by buying individual companies. By buying
9 broad ranges of ETFs, there is a value of stocks and
10 dividends. So diversification reduces my beta.
11 Diversification reduces my risk.

12 MR. STEVEN R. SEILER: Okay. I think we need
13 to move on at this point.

14 Do we have other questions?

15 MS. MARGARET HASKIN: Yeah. I see in the Wall
16 Street Journal notifications of the word forever
17 chemicals, or whatever that is that's being batted
18 around.

19 Is that something that's going to be a part of
20 the water testing?

21 MR. KEN TCHENG: Yes.

22 MS. MARGARET HASKIN: I'm very intrigued by
23 that.

24 MR. KEN TCHENG: The PFAS chemical, when the
25 State started testing it, they started testing around

1 airport and waste disposal sites.

2 MS. MARGARET HASKIN: Yes. Correct.

3 MR. KEN TCHENG: And we're not close to it, so
4 we were delayed in testing. The Watermaster has just
5 issued a testing of all of the water sites, water
6 utilities around here. So this quarter --

7 Troy, have they done the testing?

8 MR. TROY HOLLAND: I believe they already did.

9 MR. KEN TCHENG: So they have collected samples
10 to test for PFAS.

11 MS. MARGARET HASKIN: Will that be sent out to
12 people, that information?

13 MR. KEN TCHENG: It will be in the CCR. It's
14 the water quality report that we send out annually.

15 MS. MARGARET HASKIN: Yes. I know what you're
16 talking about.

17 MR. STEVEN R. SEILER: Not everybody does
18 though.

19 MR. KEN TCHENG: So I want to let you know,
20 PFAS can be treated with carbon. We do have a carbon
21 system here. So we are prepared, if it is detected.
22 Right now we don't believe we have it, but samples will
23 tell us.

24 MS. MARGARET HASKIN: When do you think your
25 first report on that --

1 MR. KEN TCHENG: They took a sample --

2 MR. TROY HOLLAND: I believe the first of the
3 month.

4 MS. MARGARET HASKIN: Oh, currently?

5 MR. TROY HOLLAND: Yes. It is currently.

6 MS. MARGARET HASKIN: And that will be
7 continued over a period of time?

8 MR. KEN TCHENG: Yes.

9 MS. MARGARET HASKIN: Is that going to be State
10 or Federally regulated or you don't know yet?

11 MR. KEN TCHENG: We don't know. The regulation
12 hasn't been established yet.

13 MS. MARGARET HASKIN: I realize it's all up for
14 discussion around the country.

15 MR. KEN TCHENG: So we know that our
16 Watermaster basin -- Basin Watermaster is monitoring
17 this all on our behalf. So we will know if -- what
18 happens.

19 MS. MARGARET HASKIN: So that's coming along in
20 the future.

21 MR. KEN TCHENG: Yes.

22 MR. STEVEN R. SEILER: Thank you very much.
23 Do we have any other questions?

24 MR. JAMES BORTOLOTTI: What percentage of the
25 system has been replaced?

1 MR. STEVEN R. SEILER: Repeat the question
2 again.

3 MR. JOHN L. SHAW: State your name again for
4 the record.

5 MR. JAMES BORTOLOTTI: James Bortolotti.

6 MR. STEVEN R. SEILER: And the question again?
7 I'm sorry.

8 MR. JAMES BORTOLOTTI: What percentage of the
9 system has been replaced, the pipes, the water pipes
10 system?

11 MR. KEN TCHENG: So we have about 60 miles of
12 mains, pipes around our entire system. Our commitment
13 is annually an expense at \$1,000,000, so that gives that
14 about a mile of pipe. So the fact of that we've been
15 doing that commitment since 2008 when I came on board.
16 Yeah.

17 MR. LAP T. NG: Some years we have had more
18 than one project, we had multiple projects.

19 MR. KEN TCHENG: So each year we're doing about
20 a mile of pipe. So if you think about it, by the time
21 we turn 60, it's perpetual.

22 MR. JAMES BORTOLOTTI: On our water bill, the
23 \$6 charge is that what that's basically for?

24 MR. KEN TCHENG: No. The \$6 probably is -- no.
25 We have two reservoirs. So we have the four-million

1 gallon reservoir behind Trader Joe's. And behind here
2 is the six-million gallon reservoir. We just finished
3 the one by Trader Joe's. That cost us 2.7 million
4 dollars. The next reservoir is going to cost us in the
5 neighborhood of five million. So that \$6 charge is
6 collected for ten years to pay for, strictly for the
7 reservoir rehabilitation.

8 MR. JAMES BORTOLOTTI: Okay.

9 MR. JOHN L. SHAW: Not for any of the pipes.

10 MR. JAMES BORTOLOTTI: Right.

11 MR. TROY HOLLAND: The Reno water main project
12 we will be doing this year as well.

13 MR. KEN TCHENG: Yeah. It's an annual.

14 MR. LAP T. NG: That's annual, according to the
15 master plan. So we do have a master plan. We are
16 re-doing the master plan. So we do have one that we go
17 by where we are replacing the infrastructure, updating
18 the infrastructure.

19 MR. JAMES BORTOLOTTI: So are those original
20 pipes since 1895, whatever it is?

21 MR. STEVEN R. SEILER: No, sir.

22 MR. JAMES BORTOLOTTI: I just wondered about
23 that.

24 MR. STEVEN R. SEILER: When I was first on the
25 board, we still had 1829 pipes in some areas. But as

1 they need to be replaced, we've replaced them as we have
2 to.

3 MR. FRED NELSON: Would it be possible to have
4 the Annual Report two weeks ahead of the time of the
5 meeting, so you can study it and read it, instead of you
6 don't have a computer, you can't get it? I really
7 appreciate it. I really think we should have it before
8 the meeting, so you can read it and understand it, as a
9 shareholder.

10 MR. KEN TCHENG: So I know -- can the auditor
11 hear us? Hey Paul, can you hear us?

12 So to answer your question --

13 MR. PETER C. JEONG: Paul, did you hear the
14 question?

15 MR. KEN TCHENG: We can't hear him. Is he
16 muted?

17 Paul, can you say something?

18 MR. PAUL KAYMARK: I'm here.

19 MR. KEN TCHENG: All right.

20 MR. STEVEN R. SEILER: Okay.

21 MR. KEN TCHENG: So our audit starts -- our
22 audit starts in the February time frame. And the
23 auditors will do their best to complete, so that we can
24 get the financial report out. And as soon as we receive
25 the financial, we put it out on the website and make it

1 available.

2 But can we improve the time frame? Can you
3 move the audit early?

4 Based on audit activities, the time that we
5 have is kind of constrained by how quickly the audit can
6 be done.

7 MR. PAUL KAYMARK: Yeah. I can answer that.

8 I mean, we're waiting for a lot of things to
9 settle by the end of January, and to complete all of the
10 reconciliations. So this is like one of the fastest
11 turnarounds for the audit that we do. That, you know,
12 the information settles by the end of January. We see
13 things that are reconciled for December 31st. And we
14 dedicate a lot of time in February to get the product,
15 the audit done and completed and over to you as fast as
16 possible. We have to go through our steps as auditors
17 to be able to complete that and provide you accurate
18 information to the shareholders that are of the company.

19 So I mean, we're two months and 15 days out, I
20 mean, by the time, you know, we're there. We try to get
21 it by, you know, the end of February, first week of
22 March. So that's really good turnaround, a month to get
23 everything done, completed, and issue a report to you.

24 And like the general manager said, once it's
25 done, it's on your website. So you have probably had it

1 for over a week or ten days now, before the board
2 meeting, the shareholder meeting that you would be able
3 to review it.

4 MR. FRED NELSON: If you don't have a computer,
5 what do you do?

6 MR. PAUL KAYMARK: You come to the district
7 office and, hopefully, they will be able to provide you
8 a printed copy.

9 MR. FRED NELSON: It will be available here
10 outside?

11 MR. STEVEN R. SEILER: Fred, we'll see.

12 MS. KAREN MAAS: I already have one printed for
13 him.

14 MR. STEVEN R. SEILER: Going forward, we'll see
15 that something is available, as soon as it's available
16 to us, so you can come in and get it, if you want.

17 MR. JOSEPH PACILIO: Joe Pacilio.

18 Can we be notified in advance?

19 MR. JOHN L. SHAW: State your name.

20 MR. JOSEPH PACILIO: Joe Pacilio.

21 MR. FRED NELSON: We can pick it up two weeks
22 ahead of time? Is that what they said?

23 MR. LAP T. NG: Ten days.

24 MR. FRED NELSON: Ten days before, it will be
25 out front at the desk?

1 MR. JOESPH PACILIO: If you ask for it.

2 MR. FRED NELSON: If I ask for it.

3 MR. KEN TCHENG: So to answer your question, if
4 we have your email address, we can, basically, blast an
5 email out and let you know when it's available. You
6 know, if it's available.

7 MR. LAP T. NG: I think also in the president's
8 letter, the annual president's letter, it's in there
9 also notifying all of the shareholders that it's
10 available by a certain date.

11 MS. MARGARET HASKIN: What about putting a
12 notice for people who don't have computers, putting a
13 notice in the February bill or March? This is March.
14 February bill, when it could be picked up, for those
15 people that still don't have a computer.

16 MR. KEN TCHENG: Our bill goes out mid month.

17 MS. MARGARET HASKIN: Well, that would work,
18 January or February bill.

19 MR. KEN TCHENG: So it depends on when the
20 audit is finished. If it doesn't finish by mid month,
21 you know, you may not get the notification on the
22 insert. So, I mean, if the time is right, we can add
23 the comments in there that it's available.

24 Generally, in the president's letter, it will
25 state when we anticipate having the Annual Report.

1 MR. FRED NELSON: Am I clear that it will be
2 available out front two weeks before the annual meeting?

3 MR. STEVEN R. SEILER: No. Ten days.

4 MR. FRED NELSON: Ten days before, it will be
5 out front?

6 MR. STEVEN R. SEILER: If the audit is
7 completed on time, yes.

8 MR. KEN TCHENG: And as soon as we receive the
9 audit report, we have a few other documents that we have
10 to attach to it, like rainfalls and all this stuff, and
11 we can make that available like a day or two after we
12 receive it.

13 MR. LAP T. NG: And then also, once they do
14 complete the audit report, we review it. Okay? And we
15 need to approve it. All of the members of the board
16 have to approve it, before it's publicized.

17 MR. FRED NELSON: Just as long as it's
18 available before the meeting, I can pick up the hard
19 copy form.

20 MR. LAP T. NG: Most likely, one week.

21 MR. KEN TCHENG: So this year we received it
22 about ten days ago, and we put it on the website
23 immediately. I think your suggestion is that can we
24 notify, broadcast in a way so that the general
25 shareholders know? We'll look into that, see how we can

1 improve on that.

2 MR. STEVEN R. SEILER: Thank you, Ken.

3 MR. LAP T. NG: Email is the best way, and the
4 most efficient way.

5 MR. FRED NELSON: I don't have a computer.

6 MR. LAP T. NG: I understand you don't have a
7 computer.

8 MR. STEVEN R. SEILER: Let's move on at this
9 point. Okay?

10 MR. JOHN L. SHAW: Yes.

11 MR. STEVEN R. SEILER: Any other questions?
12 Okay. New business?

13 MS. MARGARET HASKIN: Oh, yes. I do have a
14 question.

15 Do you assume that you're going to send out
16 again the only water once a week or do you think that
17 might be two times a week?

18 MR. KEN TCHENG: Well, we've been reading on
19 that the emergency has been lifted, so we're
20 reevaluating our conservation efforts.

21 MS. MARGARET HASKIN: What's your projection?

22 MR. KEN TCHENG: We want to encourage
23 conservation. We're probably going to -- let's say I'm
24 reevaluating and I'll make the recommendation at the
25 next month's board meeting, see if we can maybe relax

1 some of the ruling.

2 But, you know, as I said, our water reduction
3 is sustained at 13 percent.

4 Believe it or not, we have water patrol out in
5 the early morning, late afternoon, seeing who is
6 watering or left water running, broken sprinkler
7 systems. And we're getting reports, and we're trying to
8 inform our shareholders that, you know, maybe your
9 sprinkler head is broken and the water is running down
10 the driveway, you may not be aware of it. So we're
11 doing all that to help us conserve.

12 MR. STEVEN R. SEILER: Okay. That should do
13 it. I don't think there is any other business at this
14 time. I don't think there is anything else.

15 We would be happy to entertain a motion to
16 adjourn.

17 I will tell you that once we are adjourned, you
18 are welcome to stay and talk with the board for as long
19 as we're available.

20 Coffee, refreshments, please.

21 So do we have a motion to adjourn?

22 MR. PETER C. JEONG: So moved.

23 MR. JOSEPH PACILIO: Go ahead. You first.

24 I'll second.

25 MR. STEVEN R. SEILER: Okay. We have a second.

1 That's fine.

2 All in favor?

3 MR. JOHN L. SHAW: I'll second it.

4 MR. STEVEN R. SEILER: He seconded it.

5 All in favor?

6 THE AUDIENCE: Aye.

7 MR. STEVEN R. SEILER: Opposed?

8 Motion carries.

9 We are adjourned.

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11 (Whereupon, the proceedings

12 concluded at 10:51 a.m.)

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