

La Cumbre Mutual Water Company

695 Via Tranquila, Santa Barbara, CA 93110-2296
Phone 805 967-2376 Fax 805 967-8102
WWW.LACUMBREWATER.COM

DIRECTORS
JANE LODAS
PRESIDENT
ALEX RODRIQUEZ
VICE-PRESIDENT
BOB URADNICEK
MARC RUSSO
DOUG CAMPBELL
MIKE ALVARADO
GENERAL MANAGER

April 27, 2018

IMPORTANT INFORMATION

Conservation & Bylaw Changes

Dear La Cumbre Water Shareholders,

We remain in a Stage II drought condition and are still asking customers to conserve 20% compared to the 2013 year. In 2017, our customers averaged an impressive 37% reduction from 2013. The State Water Allocation for this new year currently is at 20%. Locally our groundwater basins had a slight increase from last 2016/2017 winter storms but have since declined. We are reactivating an abandoned well in the Modoc area to help with redundancy and to further spread out our pumping of the aquifer. Our smart meter replacement program continues with 1125 meters installed. The remaining 370 meters in the annex area are expected to be replaced this year. If you have a smart meter, please take the time to log in and sign up for the leak alert. To date we have notified 1152 customers (some more than once) of leaks that have averaged 99 gallons/hour.

We are asking you to approve two important and separate changes in our bylaws. Our bylaws were originally written in 1925. The bylaws have a stipulation that the Water Company may incur indebtedness up to \$250,000. We would like to raise this limit of borrowing authority to \$4 million. \$250,000 in 1925 dollars equates to \$3.6 million today (Sources: saving.org). We concluded that \$4 million was a good target amount to bring our bylaw indebtedness up to date. \$4 million is also the estimate of what it would take to replace one of our three reservoirs if it were severely damaged or destroyed in a catastrophic event. Please understand, there are currently no plans to borrow these funds. The recent Thomas Fire and ensuing mudflow event has reinforced the fact that we wouldn't have adequate funds if we were to have an emergency such as an earthquake or fire. If we didn't have the higher indebtedness limits in place, an assessment would be needed. To have the ability to borrow funds without the delay of getting 2/3rds shareholder approval will speed up the process of restoring water facilities and water deliveries. The additional major benefit will be the ability to spread out the payments of a loan opposed to charging the total sum in an assessment to the shareholders.

The other change we would like to make in the bylaws involves an easier process to get our annual proxy approved. A proxy vote is a ballot cast on the behalf of the shareholder who would rather cast a written vote than attend the annual meeting to vote. Every year for the annual proxy we struggle to get 50% of the total acreage in proxies signed and returned. As many other mutual water companies have done, we want to change the percentage needed from 50% to 20%. We have spoken with numerous other mutual water agencies (Valley Water Company, Amarillo Mutual & Rubio Canyon Mutual to name a few) who have all gone from a previous 50% proxy to 20%. This percentage change is only for reaching a quorum for our annual meeting, so we may conduct normal business such as election of officers. All other changes to the Bylaws in the future would still require 2/3rds majority as it always has been.

Hope Ranch Park Homes Association has endorsed both increasing the indebtedness from \$250,000 to \$4,000,000 and lowering the percentage for reaching a quorum for the annual meeting from 50% to 20%.

It is a tremendous undertaking to get 2/3rds stockholder approval, however the BOD's and staff believe the changes are well worth the effort and will greatly benefit your Water Company and its shareholders. A copy of the current Bylaws is enclosed. Please feel free to call 967-2376 or email (office@lacumbrewater.com) with any questions you may have. Thank you for your continued support.

Sincerely,



Jane Lodas
Board President