

# La Cumbre Mutual Water Company

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## DIRECTORS

JANE LODAS  
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ALEX RODRIQUEZ  
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BOB URADNICEK

MARC RUSSO

DOUG CAMPBELL

MIKE ALVARADO  
GENERAL MANAGER

March 2018

Dear La Cumbre Water Shareholders,

In the coming months we will be asking you to approve two important 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 to \$4 million. There are no plans to use these funds other than in a water system emergency. 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 raise the funds in a disaster. 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 in the event of a disaster. 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 you the shareholders.

The other change we would like to make in the bylaws involves an easier process to get our annual proxy approved. Every year we struggle to get 50% of the total acreage in proxies signed and returned. As some other mutual water companies have done, we want to change the percentage needed from 50% to 20%. This would reduce staff time spent calling customers to return their proxy and allow the Board of Directors to conduct their official business without delay.

### Frequently Asked Questions Regarding Borrowing Limits Increase

1. What is the La Cumbre Water Company's current borrowing limit and why increase?

The La Cumbre Mutual Water Company is only authorized to borrow up to a total of \$250,000. This amount was set when the bylaws for the Company were first written and incorporated in 1925. In today's dollars, \$250,000 would equate close to \$3.6 million. The borrowing limits which are established in the bylaws, have not been updated to reflect our present needs. The staff and board of directors of the La Cumbre Mutual Water Company want to make our Water Company better equipped in a water system emergency such as an earthquake or fire that significantly damages the water company's infrastructure.

2. How does my vote affect the Company's ability to borrow money?

Per the La Cumbre Water Company's bylaws, 2/3rds approval of the shareholders is required to make changes to the bylaws. This includes borrowing limits. Your affirmative vote, which we are asking for in your proxy for the June 12, 2018 meeting, would make the necessary change. If you vote no we risk not having adequate funds to get your Water Company up and functioning after a water system emergency.

3. What happens if the shareholders do not approve the borrowing limits?

If we are unable to secure passage of the change to our bylaws the only option will be to impose an assessment if immediate funds are needed. Because the La Cumbre Mutual Water Company is a private corporation we are not required to approve an assessment through a ballot measure like a public utility would. Instead, your board of directors can impose the assessment at any time with a simple board of director majority vote. An assessment would be based on the size of the property you own. Currently we have 2,106 acres as part of the corporation. Each property's assessment would be based on a percentage, based on the size of your property in relation to the overall acreage. Larger properties would carry a larger burden if an assessment is imposed. This is a situation your board of directors want to avoid.

4. Why doesn't the La Cumbre Mutual Water Company put a bond measure on the ballot?  
The Water Company is not a public agency and cannot float a bond via a ballot measure. We have two options: 1) increase borrowing limits through the ratification of a change to our bylaws; 2) have the board of directors initiate an assessment to all shareholders in case of an emergency.
5. What is the proposed borrowing limit?  
The staff and board of directors are asking you to vote to increase our borrowing limits to four million dollars (\$4,000,000).
6. Will this somehow affect my water rates?  
No. The request to modify the borrowing limits would not directly affect your rates. The money would only be used for water system emergencies and would be repaid with normal revenue collected by the Company.
7. Is the board of directors supporting the increase?  
Yes. The board of directors has been examining this issue over the past several months, and during its January 2018 board meeting unanimously instructed staff to pursue this bylaw change.
8. If approved, what would the money be used for?  
The money will only be used for unforeseen emergencies. For over 90 years La Cumbre Water Company has for the most part been debt free. We intend to keep with this tradition. However if a catastrophe does happen it will be much more difficult to remedy without this provision. 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 in the event of a disaster. The other 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.

Frequently Asked Questions Regarding reducing percentage needed for the Proxy:

The La Cumbre Mutual Water Company is asking for your support and approval of an amendment to our bylaws that will change our current proxy from 50% needed to 20% needed.

1. What is a proxy?  
A proxy vote is a ballot cast on behalf of a shareholder of a corporation who would rather cast a proxy vote than attend a shareholder meeting. Every year, as a shareholder of the La Cumbre Mutual Water Company, you receive a notification for our annual meeting pursuant to the Company's bylaws. In the notification you also receive a proxy form. The proxy indicates your shares of the stock in the Water Company and when returned signed gives the board of directors your proxy vote at the annual meeting. Your vote is based on your property's percentage of acreage the Water Company serves. The Water Company services 2,106 acres. The larger your property acreage, the larger your vote.
2. Why reduce the % of proxies needed?  
Proxies are sent out from the Water Company once a year. The bylaws require that a minimum 50% of the proxies be returned in order for the board of directors to conduct their official business. By voting to allow for only 20% proxies needed, we are allowing the board to conduct official business without delay. This helps the shareholder and the Water Company. First, it helps the Company conduct its official business and can be important in years when we have critical issues to address. Secondly, it helps the shareholder because the Company will be reducing the time to call to remind customers every year to send in their proxy.
3. What if I vote against the proposed bylaws amendment?  
By voting against the proposal to amend the bylaws you are voting to keep the status quo. The board of directors has spent a significant amount of time on this proposal, by returning your ballot allowing for a 20% proxy you are assisting your board of directors and the Water Company staff to conduct its official business.
4. Will this proxy increase my water rates?  
No. Rate increases are dictated on numerous external variables. Authorizing your board of directors to conduct business on behalf of the shareholders will not lead to an increase in rates.