Minutes and Resolutions of Meeting of Directors of
Salem Water Users Public Water Authority of the State of Arkansas

I, the undersigned, hereby certify that I am the Secretary of Salem Water Users Public Water Authority of the State of Arkansas ("Salem Water"), a corporation organized under the laws of the State of Arkansas, and that a special meeting of the Board of Directors of said corporation was duly called and held on the 8th day of October, 2026, the following motions and actions were adopted, to wit:

Meeting Opening and Freedom of Information Act (FOIA) Compliance

- Meeting called to order as a special meeting called on short notice to address widespread customer concerns regarding the recent rate increase.
    - Chairman Dickie Kentner acknowledged public frustration regarding meeting notification: "Special meeting on short notice. We're going to be here a while. And I know a lot of people didn't get said they didn't get notified. So, we're going to do the same thing we did at the event center when everybody came, the reason for this rate increase."
    - Procedural ground rules established: Speakers requested to speak loudly for the overflow crowd in the hallway, attendees invited to take open seats, and questions permitted upon raising hands and receiving recognition. Chairman Kentner stated, "everybody in here will get to speak before they go home. We're not going home or we're going to find out."
- Roll Call of Board Members:
    - Dickie Kentner, Chairman (Present)
    - Chris Apple (Pending arrival)
    - Brett Chumley (Absent due to a church function)
    - Gary Winkler (Present)
    - David Finney (Present)
- Freedom of Information Act (FOIA) Statement:
    - Chairman Kentner read and circulated the required Arkansas FOIA compliance affirmation for signature: "I affirm that I have not engaged in any prohibited discussion, deliberation, or polling regarding any item on this meeting's agenda outside of a properly noticed and open meeting in compliance with the Arkansas Freedom of Information Act."

Timeline and Origins of the Water Rate Increase

- Historical Rate Adjustments:
    - Two years prior, the board approved an 8% rate increase across the system.
    - Prior to that 8% increase, rates had historically seen minimal adjustments, typically only minor increases of two to three dollars, making Salem Water among the lowest-cost water providers in the area.
    - Efforts to establish a comprehensive, honest rate began approximately one year ago due to escalating operational and capital expenses: "Our expenses are horrible. They're through the roof. We are very transparent. If you need to look at anything, we don't hide nothing."
- Rate Development and Multi-Party Studies:
    - Initial broad study conducted by Communities Unlimited (a nonprofit community development organization).
    - Board members and staff performed independent internal calculations without reviewing Communities Unlimited numbers simultaneously, reaching similar rough projections.
    - Cash reserve mandates and rising operational expenditures continuously increased the required revenue targets during the planning process.
- Administrative Rollout Error and Revised Implementation Schedule:
    - The approved rate increase was not scheduled to take effect until October 1st (for billing in November or December) to avoid impacting customers during the high-demand summer lawn watering and pool season.
    - Premature billing occurred due to a computer software error: "Well, somebody hit a key and sent it out. And so that would have put it in November or December. And so now we've moved it out to December."
    - Chairman Kentner assumed personal responsibility for administrative failures: "Now, any problems that took place that don't work, it stops right here. It's kind of like a coach, Razorbacks, if you will. If the team or the watch, not. Not doing right, it's the coach. And so if it don't, it's the chairman."
    - Board action: Rate implementation officially delayed until at least December billing. The board committed to reviewing and potentially modifying the rate structure before any permanent implementation takes place.

Immediate Customer Billing Resolutions and Protections

- Handling of High Bills:
    - Revised bills are currently being generated and issued to all customers reflecting previous, unincreased rates.
    - Instructions given to customers: Customers who have not paid their recent inflated bills should hold payment until revised statements arrive.
    - Reimbursement and Credits: Customers who have already paid the incorrect inflated bill will receive a full reimbursement or an account credit applied to their next billing cycle, based on customer preference.
- Public Notice Procedures and Deficiencies:
    - Board records indicate the rate adjustment was voted on by resolution in August, by a public meeting scheduled at the Benton Event Center.
    - Documentation reported by staff showed approximately 6,000 email notifications, paper statements, August billing notices, website publications, and legal newspaper advertisements were attempted.
    - Multiple customers present reported never receiving mail notices, billing notes, or email announcements regarding the proposed increase or public hearings.
    - Kentner cited computer billing transitions and admitted lack of personal follow-up to verify successful electronic transmission of notices.
- Moratorium on Late Fees and Service Disconnections:
    - The board announced an informal moratorium on late fees and shutoffs during the bill recalculation period.
    - Routine disconnects operations normally average approximately 100 cutoffs monthly, with fees set at $20 to disconnect and $25 to reconnect. Kentner noted: "there's not gonna be any late fees or shut offs. I'd rather not put that out because we run about a hundred a month shut off... but there won't be any."

Meter Infrastructure, Leak Detection, and Consumption Disputes

- Spike in August Water Usage:
    - Customers reported dramatic increases in billed consumption for August (e.g., normal usage jumping from 7,000 to 12,000 or 26,000 gallons, resulting in bills exceeding $300 to $900).
    - Maintenance Supervisor Billy explained that August is historically the driest month of the year, leading to peak residential usage across the system for lawn irrigation and landscape maintenance.
- Transition to Radio-Read Digital Meters:
    - Salem Water is actively replacing older mechanical analog paddle-wheel meters with digital radio-read meters.
    - Approximately 2,700 radio-read meters have been installed to date across a customer base of roughly 9,000 accounts.
    - Installation of remaining meters currently paused to preserve required cash reserves. Pallets of digital meters remain in inventory.
    - Technical impact on consumption measurement: Mechanical meters under-register as paddle wheels wear out; digital meters measure water flow precisely, resulting in an automatic 5% average increase in recorded consumption.
    - Digital meters operate via cataloged GPS coordinates and can be read remotely via drive-by collection or central transceivers. Customers can read digital meters locally by checking the digital register and monitoring an icon (a circle with a plus sign) that indicates active water flow.
    - System data capabilities: Current billing software lacks cloud capabilities, but migration to a new system in January will allow enhanced customer consumption tracking. Technicians can currently extract historical 45-day or 90-day minute-by-minute data logs upon customer request.
    - Meter reading personnel: The utility employs seven full-time meter readers. Management stated that as automated metering expands, staff will not be laid off but will transition through attrition or be redeployed to neglected distribution maintenance, including valve and fire hydrant servicing and leak repairs.
- System Leak Policies and Field Operations:
    - Salem Water provides a one-time leak adjustment policy managed through the office staff (Nikki). If a customer experiences an abnormal spike due to an unexpected leak, accounts are adjusted back to regular average rates once.

Repeated anomalies require independent plumbing inspection and board review.

- System-wide leak repair response times average between 7 and 14 days under standard conditions.
- Delays are driven by mandatory Arkansas One-Call utility location requirements: standard locates require a mandatory 3-day waiting period. Emergency locates are restricted to severe mains breaks to avoid statutory penalties.
- Leak mitigation investments: In a joint meeting with Southwest Water Association, the board approved hiring 3 new maintenance personnel, acquiring 5 new service trucks, and purchasing an excavator to accelerate field repairs.
- Arkansas Rural Water is conducting state-funded leak detection studies for system members at no direct cost to customers (currently assessing Tull, followed by Salem, then Southwest).

Dissecting the Proposed Rate Model and Structure

- Structure of the Proposed Increase:
  - Base rate increase: Base rate for the first 2,000 gallons increases from $16.52 to $28.03 (a 69.77% increase).
  - Volumetric rate increase: Usage beyond 2,000 gallons increases from previous tiers up to approximately $9.00+ per 1,000 gallons (representing a 107% to 112% volumetric rate hike).
- Debate on Volumetric vs. Uniform Impact:
  - Chairman Kentner defended the volumetric structure as protective of low-income and elderly residents: "That's called a volumetric RO rate. And when the rates that we recommended to take... We kind of took that rate because it looks out after our older people like me, they don't use over 2000 gallons much... Usually our big water users come under that, you know, if they water or we have twenty and thirty thousand dollars gallon."
  - Customers challenged this characterization, emphasizing that standard residential families of 4 to 5 individuals naturally exceed 2,000 gallons monthly, resulting in doubled bills ($150 to $300+) that severely burden households on fixed incomes.
  - High-volume users (commercial operations, poultry farmers, large estates

irrigating lawns) absorb significantly larger total bill increases ($600–$700 bills increasing to $1,200–$1,400).

- Administrative Fee Component:
    - A 5% administrative fee increase is incorporated into customer bills.
    - Salem Water and Southwest Water share operations through a unified entity (Water Users), which performs system maintenance and administrative billing functions. The fee covers shared staff salaries, administrative expenses, and field operations.

Regulatory and Financial Drivers of Rate Adjustments

- Arkansas Act 605 of 2021 Mandates:
    - Act 605 was enacted by the Arkansas Legislature following financial failures and mismanagement across small, rural water systems statewide.
    - Mandated 5-year rate studies to ensure retail water utilities maintain fiscal viability, meet bond obligations, and cover full system depreciation.
    - 5% Cash Reserve Requirement: Act 605 requires retail water authorities to retain a minimum of 5% of gross revenues as unrestricted liquid cash reserves in bank accounts. Salem Water must maintain between $300,000 and $500,000 permanently restricted in cash.
    - Board training requirements: Act 605 established mandatory governance training for water board members; current Salem board members were grandfathered in due to having over 10 years of continuous service.
    - Statutory Rate Implementation Rule (Arkansas Code / Act 605): An attendee cited legal provisions under Act 605 stipulating that if a mandated rate study demonstrates a required rate increase exceeding 50%, the utility has the statutory authority to phase the increase in over a two-year period rather than imposing it immediately.
- Historical Capital Debt - Reed Road Tank:
    - Approximately four years ago, Salem constructed the Reed Road storage tank, a $9 million capital project.
    - The utility deferred increasing customer rates at the time of construction because rapid customer growth generated enough temporary surplus revenue to

cover initial costs.

- Debt service of approximately $414,000 annually ($34,500/month) commenced in late 2024, creating an unexpected budgetary strain when overall system expenses increased simultaneously: "Somehow or another, honestly, that snuck up on us. We didn't know what that does service was going to be. Don't know how that happened."

- Storage Tank Maintenance Obligations:
  - Salem maintains 5 water storage tanks.
  - Arkansas Department of Health mandates complete tank maintenance, cleaning, sandblasting, valve replacements, and internal structural inspections at least once every 5 years.
  - Standard tank rehab costs approximately $250,000 per tank (one completed last year).
  - Two larger storage tanks will require maintenance costing between $500,000 and $750,000 each in the near future.

- Operating Expenses and Supply Chain Inflation:
  - Between January 1 and September 10, shared operating expenses between Salem and Southwest totaled $1,571,000.
  - Severe price inflation on HDPE pipe, ductile iron, brass fittings, fire hydrants, valves, and water meters forced the utility to abandon bulk stockpiling and purchase parts strictly on demand.
  - Vehicle fleet replacement costs: Salem operates 20 service technicians and 5 office employees; high vehicle mileage necessitates regular fleet maintenance and ongoing vehicle replacements.

City of Bryant Infrastructure Mandate: Spring Hill Road Widening

- Project Overview and Right-of-Way Relocation:
  - The City of Bryant notified Salem Water of plans to widen Spring Hill Road within the next 1 to 2 years.
  - Salem maintains a critical 6-inch to 8-inch waterline extending from Highway 5

along Spring Hill Road.

- Legal status of utility lines: Because the existing waterline is located within the dedicated municipal road right-of-way rather than an independent private easement, the utility is legally required to pay 100% of the relocation costs: "If the line is in the road right away... It is on us to move it as far as they need to widen the road. At our cost."

- Budgetary Impact on the Rate Increase:
  - Total engineering estimate for the Spring Hill relocation is $3.8 million. Former board member Jeff Richards included an amortized figure of $2.3 million ($1.15 million per year over two years) into the 2026 rate model.
  - Direct customer rate effect: Board Chairman Kentner affirmed that the Spring Hill Road relocation alone adds approximately $4.00 per month to the base rate across all customers: "If we didn't have to do that job, we could drop that $11 to $7 just on that one job."
  - Management proposal: Salem plans to utilize internal labor using butt-fused HDPE pipe to execute the project on weekends, attempting to bring actual costs below $2 million.
  - Board Chairman announced an immediate plan to contact Bryant officials to explore deferring the relocation or removing the line item from the near-term budget to lower rates.
- Municipal Acquisition Considerations:
  - Contracts permit the cities of Bryant or Benton to purchase customers from Salem in certain boundary zones, typically when subdivisions request municipal sewer service.
  - If Bryant acquires the area along Spring Hill Road in the future, the city would be obligated to buy out the infrastructure, reimbursing Salem's capital costs, which would then be returned to customers.

Avilla Debt Surcharge and System Interconnections

- Origin of the Avilla Debt:
  - Established in 2001–2002 during a public meeting at Avilla Church to extend public water infrastructure to rural areas with failing private wells.

- The $13 million capital improvement project originally assessed a debt surcharge of $29.00 per month on each participating customer account.
- The surcharge was later refinanced down to $16.00 and currently stands at $16.85 per month.
- Avilla customers comprise approximately 40% of Salem PWA's total customer base, covering areas such as rural Alexander, Snow Road, Zuber Road, West Cliff, and Dawson Springs.

- Bond Covenants and Reserve Requirements:
  - Bond covenants require collecting a 10% cash cushion above annual debt service payments to ensure uninterrupted liquidity: "the bond holders have it as part of their bond transcript... that we have to collect 10% more than what we have to pay on that to provide a cushion."
  - Combined with the Act 605 5% cash reserve requirement, the utility must collect a cumulative 15% reserve cushion on related revenues.
- Specialized Infrastructure Requirements:
  - Select customers along the Little Rock boundary pay an additional $30 to $40 surcharge because Central Arkansas Water (CAW) mandated the installation of ductile iron and copper mains rather than standard PVC.
  - Surcharges are collected by Salem to retire project debt while CAW bills monthly water volume.

Water Supply Sourcing, Hydraulic Pressures, and Regional Authority

- Wholesale Water Sourcing:
  - Salem Water does not operate a raw water treatment plant; it purchases treated wholesale water from two primary sources:
    - Central Arkansas Water (CAW): Provides 75% to 85% of total system volume.
    - City of Benton: Provides the remaining 15% to 25%.
  - System operates entirely via gravity feed from CAW connections through Congo and Avilla into Lake Norrell, with no active booster pump stations in the

distribution system.

- Extreme Pressure Incidents (Highway 5 and Route 298):
    - Customers reported extreme line pressures reaching up to 180 to 225 psi, resulting in failed residential pressure regulators and ruptured SharkBite plumbing fittings.
    - Billy explained that low-pressure conditions at dead-end lines prompted the Arkansas Department of Health to require higher system pressures in the valley.
    - Technicians switched lines from the Benton pressure plane to the CAW pressure plane to meet regulatory minimums, resulting in excessive pressure downstream. In-ground Pressure Reducing Valves (PRVs) are utilized, but aging 20-foot pipe segments on Highway 5 require frequent patching and eventual capital replacement.
    - System interconnectivity proved critical during past crises, such as supplying emergency water across Interstate 30 to Saline Memorial Hospital during a dual 16-inch transmission main failure.
- Long-Term Independence: Saline Regional Public Water Authority:
    - Salem is a charter member of the Saline Regional Public Water Authority, comprised of the nine largest water purveyors in Saline County: Benton, Bryant, Haskell, Tull, Shannon Hills, Woodland Hills, East End, and Salem.
    - Objective: Establish an independent water treatment facility utilizing the Ouachita River to eliminate reliance on CAW wholesale rate hikes, which are scheduled to rise toward $7.00 per thousand gallons.
    - Financing and Rate Integration: Capital construction will be funded via long-term revenue bonds amortized over 25 to 40 years (matching the useful life of buried pipe). Debt service will be rolled directly into universal volumetric rates paid by all participating purveyors.
    - Board Chairman clarified that current proposed rate increases have no connection to the regional water authority project, which remains 1 to 2 years away from active construction financing.

Financial Modeling Analysis by Former Board Member Jeff Richards

- Background and Qualifications:
    - Jeff Richards served on the Salem Water Board until resigning in May 2024 after relocating into the Benton city limits (bylaws require board members to reside within the service area or represent a customer). Richards developed the spreadsheet model presented to the board.
- Breakdown of the Communities Unlimited Rate Study Errors:
    - The initial study by Communities Unlimited mistakenly calculated Salem's existing base rate as $23.75 instead of the actual rate of $16.52.
    - The study calculated that the utility required a base rate of $28.03 to achieve solvency (representing an 18% increase from their erroneous $23.75 baseline).
    - When management notified Communities Unlimited of the mistake, the analysts did not adjust the required total revenue target; they simply applied an 18% increase to the actual $16.52 rate, which yielded an inadequate revenue total.
    - Richards maintained that the target revenue figure ($28.03 base rate) identified in the initial calculation was mathematically correct to satisfy budget requirements.
- Line-by-Line Revenue and Expense Model:
    - Gross operating budget for 2026 (compiled by the utility's external CPA).
    - Act 605 5% gross revenue reserve requirement.
    - 5% administrative fee increase for shared operations.
    - Joint annual debt service shared with Southwest Water Association.
    - Reed Road Tank debt service: $414,000 annually.
    - Avilla average actual debt service: Approximately $1,000,000+ annually.
    - Spring Hill Road relocation allocation: $2.3 million total project cost, split at $1.15 million annually across a 2-year collection window.
    - Gross system expenditure required: Approximately $8,000,000.
    - Less dedicated Avilla debt surcharge collections ($16.85/month): Leaves net revenue required from base and volumetric rates at slightly over $7,000,000.
- Mathematical Derivation of Rates:
    - Customer metrics: Calculations based on 8,898 active Salem customer meters

(out of 9,080 total accounts, varying daily).

- Average consumption assumption: Total water sold from January 1, 2023, to December 31, 2023, divided by active customer accounts yielded an average of 5,400 gallons per month per customer.
- To simplify billing steps (water billed in 1,000-gallon increments), Richards modeled average billing at 5,000 gallons per customer.
- Required revenue per customer: Net $7 million expense divided across total users yielded an average required bill of $66.32 per month for standard customers, and $83.17 per month for Avilla customers.
- Setting the base rate at $28.03 for the first 2,000 gallons meant the remaining required balance had to be generated across the next 3,000 gallons of average usage, forcing the volumetric rate to rise to approximately $9.00+ per 1,000 gallons.

Public Feedback, Board Governance, and Critical Exchanges

- Public Backlash on Fixed-Income Impacts:
  - Multiple attendees shared personal hardships, noting that fixed Social Security incomes cannot absorb sudden 100%+ utility increases.
  - One attendee stated: "From my point of view... Two people in my house, we're on fixed income. I can't make my Social Security go up, I can't make my wages go up... What I'm hearing is we didn't appear adjust our budget so we could have had a 10 increase each year... Instead of 112... This is putting us into a situation where like this lady, her aunt is going to have to decide whether she can take a pill or take a bath. 112% is unrealistic and wrong."
  - Another resident shared the plight of an 88-year-old family member on a fixed income whose bill spiked near $300, forcing choices between food, medication, and utility service.
- Criticism of Budget Planning and Management:
  - Attendees condemned the board for allowing capital debt and maintenance to accumulate into an emergency increase: "If we missed five years by a hundred percent, are we just going to get a 3%? 3%... And then in five years we're going to get another 100%? There was poor planning. If I missed my budget this much, I'd have been fired a long time ago."

- Attendees demanded to know why rate increases were not implemented gradually at 5% to 10% annually over the preceding decade.
- An attendee criticized the board's reliance on non-professional studies: "Chairman, it's a little bit disingenuous for you to look at us in this room and say anything y' all can do to help us. You're running this thing and you're not qualified to understand a rate study and what it be said at... You're supposed to hire professionals."

- Transparency Demands and Document Requests:
  - An attendee requested three fundamental financial documents to enable independent evaluation of the utility's fiscal position:

1. The fully completed official rate study.
2. Certified audited financial statements from the previous fiscal year.
3. The board-approved operating and capital budget for the current year.
   - Board attorney confirmed contact details would be taken to furnish the available audited financial statements and rate filings.
   - Attendees noted the utility website lacked easily accessible public copies of approved budgets, Capital Improvement Plans (CIP), and audited financials. Management agreed to address this.

- Board Composition and Election Process:
  - Board consists of five volunteer members serving extended terms (Chairman Kentner has served for 25–26 years; average tenure spans multiple decades).
  - Kentner confirmed he plans to step down at the annual meeting in February 2026.
  - Board election mechanics: Elections occur at the annual customer meeting each February. All Salem Water customers of record are eligible to attend, nominate candidates, and cast ballots. Customer attendance at annual meetings has historically been extremely low.

- Private Well Inquiries:
  - Residents with private water wells inquired whether they could disconnect their Salem meter to avoid charges.
  - Management clarified that customers may disconnect service entirely with no monthly minimum bill if the meter is fully removed, provided no physical cross-

connection exists between a private well and the municipal system, which is strictly prohibited by state health regulations.

Next Steps and Action Items

- Immediate Rate Implementation Freeze:
    - The approved 112% rate increase is officially suspended from near-term billing.
    - Customer accounts will be billed under the previous rate structure through November. Any future modified rate structure will not take effect before December 2025 at the earliest.
- Re-issuance of Corrected Invoices:
    - Staff instructed to issue revised paper and electronic statements reflecting pre-increase rates for the current billing cycle.
    - Customers who already remitted payment based on inflated notices will receive direct bank refunds or bill credits.
- City of Bryant Coordination (Spring Hill Road):
    - Chairman Kentner committed to contacting City of Bryant officials immediately to discuss removing or delaying the $3.8 million Spring Hill Road line relocation from the 2025–2026 capital schedule.
    - Removing the Spring Hill allocation is projected to reduce the proposed customer base rate by approximately $4.00 per month (dropping the proposed increase from $11 to $7).
- Commissioning a Professional Rate Study:
    - The board agreed to select a licensed, professional engineering or municipal finance firm from the Arkansas Natural Resources Commission (ANRC) approved rate consultant list to perform an independent rate study.
    - The study will incorporate Vernon Williams' 5-year and 10-year Capital Improvement Plan (containing an estimated $21 million in long-term system upgrades) and actual revenue/expense data.
- Evaluation of Multi-Year Rate Phasing:
    - Management and legal counsel will review Arkansas Act 605 statutory provisions permitting rate increases exceeding 50% to be phased in incrementally over a

two-year window rather than implemented as a single adjustment.

- Future annual adjustments are planned to follow a predictable Consumer Price Index (CPI) model capped at 3% to 5% annually beginning in October cycles to prevent future sudden increases.

- Formation of a Customer Advisory Group:
  - The board voiced support for establishing an informal customer advisory committee composed of local business leaders and residents to review financial disclosures, evaluate rate models alongside management, and enhance public transparency.

Adjournment

- Chairman Dickie Kentner called for a motion to adjourn the special meeting.
- Motion moved, seconded, and passed unanimously.

Ratified this _____ day of _____, 2026

_____

/s/ Chris Apple, Secretary