

Date of Hearing: June 27, 2011

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Mike Eng, Chair

SB 918 (Anderson) – As Amended: April 13, 2011

SENATE VOTE: 40-0

SUBJECT: Mutual water companies: boards of directors.

SUMMARY: Establishes under California's General Corporations Law that mutual water companies can elect directors to staggered 4-year terms if authorized. Specifically, this bill:

- 1) Requires the mutual water company to authorize the staggered 4-year terms in their articles of incorporation or bylaws.
- 2) Provides that upon the initial election of directors to staggered terms that the elected directors shall determine by lot who among them shall serve the initial two-year terms and who among them shall serve four-year terms.
- 3) Requires prior to any election in which the terms of elected directors are determined by lot that the mutual water company notify its shareholders.

EXISTING LAW

- 1) Establishes that at each annual meeting of shareholders, directors shall be elected to hold office until the next annual meeting. (Corporations Code, Section 301)
- 2) Defines a "mutual water company" as any private corporation or association organized for the purposes of delivering water to its stockholders and members at cost, including use of works for conserving, treating and reclaiming water. (Public and Utilities Code, Section 2725)
- 3) Establishes California's General Corporation Law whereby a mutual water company may be formed. (Corporations Code, Section 100)
- 4) Creates the Nonprofit Mutual Benefit Corporation Law, whereby a mutual water company may be formed. (Corporations Code, Section 7110)

FISCAL EFFECT: None.

COMMENTS:

Need for the bill: According to the Author, SB 918 will provide administrative flexibility for private mutual water companies in the area of elections. Currently, California law requires mutual water companies to hold elections for their board of directors annually. This bill will allow mutual water companies to conduct elections every two years and elect their board members to staggered 4-year terms. Compulsory annual elections have created confusion and inconsistency for some mutual water companies. Electing all five members of their board of

directors at each annual shareholder meeting has created high turnover and instability for their board, staff and shareholders.

SB 918 is not a requirement but an additional tool for mutual water companies under the General Corporation Law to voluntarily determine in their articles of incorporation or bylaws that they wish to elect their boards of directors to staggered 4-year terms every two-year instead of holding elections each year at their annual meeting. According to the Sponsor, the Farm Mutual Water Company, SB 918 is consistent with election practices for public water agencies throughout the state of California.

Over 500 mutual water companies exist in California. Mutual water companies exist for a number of reasons including to develop, distribute, store and deliver water for irrigation, fire protection and domestic uses.

REGISTERED SUPPORT / OPPOSITION:

Support

The Farm Mutual Water Company – **sponsor**

Opposition

None on file.

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