

MINUTES OF THE BOARD OF DIRECTORS
ZONE 7
ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

REGULAR MEETING
February 20, 2008

Vice-President Palmer called the regular meeting to order at 7 p.m., with a salute to the flag. The following were present:

DIRECTORS: JOHN GRECI
JAMES CONCANNON
STEPHEN KALTHOFF
JAMES KOHNEN
SARAH PALMER
RICHARD QUIGLEY
BILL STEVENS

DIRECTORS ABSENT: NONE

ZONE 7 STAFF: JILL DUERIG, GENERAL MANAGER
AMY NAAMANI, GENERAL COUNSEL
KURT ARENDS, ASSISTANT GENERAL MANAGER, ENGINEERING
VINCE WONG, ASSISTANT GENERAL MANAGER, OPERATIONS
JOHN YUE, ASSISTANT GENERAL MANAGER, FINANCE & BUSINESS SERVICES
TAMARA BAPTISTA, SR. ADMINISTRATIVE ANALYST
KARLA NEMETH, ENVIRONMENTAL & PUBLIC AFFAIRS MANAGER
BARBARA MORSE, BOARD SECRETARY

Item 3—Citizens Forum—No comments.

Item 4—Minutes of Regular Meeting of January 16, 2008 and Special Meeting of January 30, 2008

On a motion by Director Kalthoff with second by Director Greci, the Board approved the minutes of the regular meeting of January 16, 2008.

On a motion by Director Greci with second by Director Concannon, the Board approved the minutes of the special meeting of January 30, 2008. Director Quigley abstained.

Item 5—Consent Calendar

Questions on consent items:

Ms. Duerig noted that there is a typo in the first bullet on item 5e, Bay-Friendly Landscaping and Gardening Conference—the correct date of the conference is February 29, 2008.

In response to a question on item 5d, Solid Waste Disposal Contract, from Vice-President Palmer, Ms. Duerig stated that all of the waste that will be disposed of under this contract is dry.

There were no further questions.

Director Greci moved for the approval of consent items 5a through 5f. The motion was seconded by Director Concannon, and the following resolutions/minute orders were approved by a vote of 7-0.

- Resolution No. 08-3130 Approving request of Directors Quigley and Palmer to attend the North Bay Watershed Association Conference, “The Power of Water,” April 8, 2008, in Petaluma, California, and for reimbursement of actual and necessary expenses associated with their attendance. (Item 5a)
- Resolution No. 08-3131 Approving out-of-state travel and expense reimbursement for Ms. Karla Nemeth to attend Bay Delta Conservation Plan-related meetings in Washington, DC, March 5-7, 2008. (Item 5b)
- Resolution No. 08-3132 Approving out-of-state travel and expense reimbursement for Mr. Tom Hughes to attend the 2008 AWWA Compensation Strategies Seminar in Las Vegas, Nevada, March 6-7, 2008. (Item 5c)
- Resolution No. 08-3133 Approving solid waste disposal contract with Waste Management in an amount of \$315,000 per year for fiscal years 2007/08, 2008/09 and 2009/10. (Item 5d)
- Resolution No. 08-3134 Adopting the Bay-Friendly Landscaping and Gardening Seven Principles Declaration to demonstrate support for the Regional Coalition on Bay-Friendly Landscaping and Gardening. (Item 5e)
- Resolution No. 08-3135 Approving contract with V&A Consulting Engineers, Inc., for design and construction support services for recoating of clearwells at Del Valle Water Treatment Plant for a not-to-exceed total of \$82,000. (Item 5f)

Item 6—Staffing Updates—None

Item 7—Mountain House Untreated Water Service Agreement

The Board heard a background report from Mr. Yue on the Mountain House Untreated Water Service Agreement.

- Mountain House Golf Course is currently over 100 days in arrears on invoices dating back to September 10, 2007.
- Zone 7 has had an Untreated Water Service Contract with Mountain House Golf Course dating back to July 19, 2000 and over that time has exhibited a frequent pattern of failure to make timely payment of charges for water service.
- Mountain House Golf Course, through its General Manager Mr. William Costanza, has been advised numerous times of its contractual duty to make timely payments. On January 22, 2008, Mr. Costanza was notified via US Mail that in the event full payment is not received by January 31, 2008, the Board of Directors will be considering suspension of this untreated water contract at its February 20th, 2008 board meeting.
- Payment for the outstanding invoices has not been received as of 5 p.m., today.

- It is recommended that the Board adopt the attached resolution to suspend untreated water service to Mountain House Golf Course.

Staff then answered questions from the Board related to this item.

Ms. Duerig clarified that the fifth bullet point is incorrect. The contract amount for Mountain House Golf Course is 50 afa. In 2007 they took additional water from Zone 7 which was available through a surplus water program. Under that program, in years when excess water is available, it is offered for sale to existing untreated water customers.

Ms. Duerig further stated that Mr. Costanzo has indicated that he understands that for the service to be reinstated, he must pay the outstanding invoices. We do have an e-mail which was sent to Mr. Horen, of our staff, in which he asks for a 60-day delay in order to allow the investor partners in the golf course to restructure its financing. In the e-mail, he cited delays, rising costs and the downturn in the economy as reasons for the delinquency of the untreated water payments.

Responses to other questions from the Board:

- There are no other accounts which are delinquent.
- If we are unable to collect, the account can be sent to a collection agency.
- If DWR ultimately builds a turnout for the golf course, it may be possible to put language in the contract which will require payment in advance.
- The deposit for funds to cover engineering design services for the proposed turnout has been used up.
- We feel it is unlikely that the developer will walk away from the project; however, if that happens, we are prepared to send the bill to a collection agency.

Neither Mr. Costanzo nor a representative was present to answer questions.

There were no comments from the audience.

Director Kalthoff moved for adoption of Resolution No. 08-3136 authorizing staff to suspend untreated water service to Mountain House Golf Course. The motion was seconded by Director Quigley and passed by a vote of 7-0.

Item 8—Budget for Fiscal Year 2008-2009

The Board heard a presentation from Ms. Baptista on the Budget for Fiscal Year 2008-2009.

- Budget Overview—general description of the Operating and Capital Budgets
 - Operating Budgets: General Fund/Flood Control; State Water Facilities; Water Enterprise
 - Capital Budgets: Special Drainage Area 7-1; Renewal/Replacement and System-wide Improvements; Expansion
- Budget/Water Rate Cycle
 - Water Rate is set for the calendar year (Jan - Dec)
 - Budget is set on fiscal year (July - June)

- Since budgets overlap two calendar years, revenue/expenditure projections are based on water rates for two different years.
- Budget Development
 - It is Zone 7's general policy to minimize water rate increases.
 - The budget is developed within anticipated resources.
 - Water Enterprise is targeted for 3% growth rate.
 - Capital Budgets are developed with the CIP.
- Recent Issues:
 - Delta concerns related to 30% pumping reduction from the Delta as a result of the Wanger Decision; and reduced revenue from resultant conservation request to water users.
 - Board decision to use the Rate Stabilization Fund to mitigate water rate increases which were the result of the reduced pumping and conservation.
 - Economy and down turn in the housing market.
 - Water quality.
 - Asset Management Program (AMP) and ramp up to \$10 million annual contribution.
- Future Issues
 - Major capital projects—The O&M costs will eventually be charged to the Water Enterprise.
 - Well Master Plan.
 - Demineralization project.
 - Altamont projects (WTP and pipelines).
 - StreamWISE program.

Budget Summary

- The total budget for FY 08-09 for both operating and capital budgets is \$184.5 million (a \$4.2 million decrease from FY 07-08).
- The total proposed operating budget costs proposed for FY 08-09 is \$72.8 million. (\$3.6 million increase from FY 07-08).
- The total proposed capital project budget proposed FY 08-09 is \$111.7 million. (\$7.8 million decrease from FY 07-08).

Fund Summaries

General Fund/Flood Control: \$6,577,733 (Reserves of \$11,518,614 and \$4,200,000)

- Purpose: Control drainage of the Valley's excess water runoff and to the extent possible protect life and property. Zone 7 watershed is nearly 620 square miles. Zone 7 owns/maintains more than 39 miles of flood control channels and drainage facilities.
- This fund budget is increasing by \$0.1 million.
- Factors influencing this fund are an increase to the project reserve funds in preparation for major maintenance projects; and StreamWISE (Waterway Improvements Supporting the

Environment) which will establish priorities and recommend specific projects. For the past two years this fund has been impacted by the ERAF property tax shift which has now been completed.

State Water Facilities: \$8,226,597 (Reserves of \$4,373,070)

- Purpose: Fund costs associated with the State water delivery system, which includes repayment of voter approved, State incurred, long-term debt.
- This fund budget is increasing by \$1 million based on anticipated State DWR charges for FY 08-09. The reserve fund in this budget is increasing by \$1 million to reflect the cash flow needs pending receipt of property taxes, to mitigate the potential loss of availability of development funds and to address any changes implemented midyear by the Department of Water Resources.
- Significant Factors: Emergency operating reserves (increased to \$4.3 million); and property tax rate limit.

Water Enterprise: \$30,752,911 (Reserves of \$0 in rate stabilization; \$6,150,582 in emergency/operating reserves; and \$973,300 in designated reserves)

- Purpose: Ensure the delivery of high quality water to the Livermore-Amador Valley. This includes water treatment and distribution of potable water; distribution of untreated agricultural water; and surface water and groundwater management. This fund serves as the basis for the treated water rate calculation.
- This fund budget has decreased from the preliminary budget presented last September in connection with setting the treated water rate for 2008. Most components have gone down slightly but increases occurred in professional services (includes \$150,000 for a separation study), maintenance of facilities and other services and supplies, i.e., county charges.
- Significant factors:
 - Capital contributions--\$4.3 million transfer to the Renewal/Replacement Fund.
 - Rate Stabilization reserve—Board approved use of this reserve to mitigate higher water rate increases.
 - Operating and designated reserves:
 - Operating and emergency reserve: \$6.1 million.
 - Designated reserves: \$973,300 for items over which there is minimal control, i.e., water, chemicals, power, and personnel.
 - Lower water sales revenue: impact of Wanger Decision and local conservation.
 - Water rate estimate for 2009: Anticipate an 8.25% treated water rate increase and an additional 2.45% Delta water charge for CY 2009. This will not be presented to the Board for approval until October 2008 but the 08/09 budget is based on this anticipated combined total increase of 10.7% for the CY 2009 treated water rate.

Special Drainage SDA 7-1: \$15,159,988

- Purpose: To ensure that Zone 7 is able to meet future needs for flood control facilities. The program is primarily intended to provide funding for any flood control facilities required for new development.
- Significant Factors: \$12 million for Arroyo las Positas Improvements (StreamWISE project) in the chain of lakes area to be built concurrently with the City of Livermore's El Charro Specific Plan.

Renewal/Replacement and System-wide Improvements: \$3,798,000 and \$9,490,405, respectively

- Purpose: To ensure that the current water treatment and delivery systems are functioning efficiently and meet the requirements to provide reliable and high quality services to Zone 7 customers.
- Funding comes from sale of treated and untreated water and connection and facility use fees by new development which is delivered to this fund via a transfer from the Water Enterprise. A \$4 million transfer is planned for FY 08-09.
- The Asset Management Program study recommended that the annual contribution to these programs be increased from \$4 million to \$10 million per year to carry out the replacement and improvement program. This increase is being phased in over a ten-year period.
- Among the projects in the Renewal & Replacement and System-wide Improvements Programs being recommended are:

\$835,000	Emergency preparedness
\$5,832,405	Groundwater basin management (50% of the Mocho Demin Project)
\$86,000	Program management
\$310,000	Transmission & distribution
\$282,000	Water supply and conveyance
\$5,016,000	Water treatment facilities
\$100,000	Regulatory compliance
\$478,000	Building and Grounds
\$349,000	Sinking fund.

Expansion: \$83,299,243

- Purpose: Ensure that Zone 7 is able to meet future needs for water demands. The program is primarily intended to provide funding for new facilities and water supplies to address new development, as such is it funded entirely from connection fees.
- In January 2008, the Board-approved \$60 million Installment Sales Agreement (ISA) became effective. The ISA will cover short term funding gaps which will occur in this fund when

future large water supply and conveyance projects are under way. A \$10.5 million draw is planned in 1008-09 if called for by the CIP.

- Projects being recommended are
 - \$5,512,405 for groundwater basin management (50% of Mocho demin project);
 - \$75,061,600 for water treatment facilities (Altamont Water Treatment Plant & Pipeline);
 - \$11,819,000 for new wells;
 - \$13,231,000 for water supply & conveyance (SBA projects and Cawelo);
 - \$2,197,000 for sinking funds;
 - \$376,000 for building & grounds;
 - 1,047,242 for program management; and
 - 50,000 for transmission & distribution.

Issues & Trends

- Funding of the Capital Improvement Program and operating costs for new facilities and water treatment.
- Federal Court ruling which resulted in a 30% reduction in DWR pumping since June 2007. Reduced revenues from new development caused by a slow down in the economy.
- Planned ramp up of the annual contribution to the Asset Management Program.
- Planned large projects related to water quality, supply and conveyance.
- Local land use issues and economic development which affect projected growth and impact development fee revenue.
- Planning for a sustainable water supply and drought storage protection.
- Evaluation of the impacts of climate change on water supply.

Presentations:

- Presentation made to the Tri-Valley Water Retailers Group on February 14 .
- Finance Committee heard a presentation on February 7, and there was concurrence that the 08/09 budget be placed on the agenda for the February 20.

Recommendation:

Adopt the four draft resolutions to adopt the Zone 7 Budget for FY 2008-2009.

Questions/comments:

In response to a question from Director Kalthoff, Ms. Duerig confirmed that the budget information has been discussed with the Tri-Valley Water Retailers Group (TWRG). They are still hesitant about the ramp up to the \$10 million contribution for the Asset Management Plan (AMP), and they stand by past comments. However, since we have not been able to reach a \$4.6 million contribution this year, it is a moot point. Further they are concerned with clarity of the budget. They feel that perhaps we simplify too much. We may look at a different format for next year.

Director Stevens suggested in the future having a separate line item which shows the proposed contribution to the AMP.

Director Kohnen questioned the statement that revenue would bounce back in 2009. We don't have any assurances of that.

Ms. Baptista agreed that there are no guarantees. The statement is based on the ABAG economic forecast.

Ms. Duerig stated that before we proceed with the Altamont WTP project, we intend to revisit the issues of revenue stream, demands and whether we need to proceed with the Altamont project right now. There will be a detailed analysis before moving forward with the bulk of that project.

Regarding the potential failure of one of Zone 7's 35 year old pipelines, Director Kohnen stated that this is a hint of things to come. It could be very expensive to replace. Do we have contingencies if that were to occur?

Ms. Duerig stated that is the purpose of the AMP. We track the age of facilities and then put away money for repairs or replacement. Mr. Arends can speak more about the pipeline problem.

Mr. Arends provided an explanation of the current pipeline problem. A weld joint has failed; the seam appears to be ok. After examining the pipe, it appears that it is not on the verge of a major problem. The cause may have been stress, and that is not necessarily a sign of major problems.

Zone 7 Maintenance Supervisor, Mr. Barry Ivy, was in the audience and confirmed Mr. Arends comments. He also added that in the future a camera can be used to check the pipe. (It was noted that the pipe in question is a 36-inch diameter pipe under 100 lbs. of pressure.)

There were no further comments.

On individual motions and roll call votes the Board adopted the following resolutions by a vote of 7-0:

Resolution No. 08-3137 Adopting the budgets for the General/Flood Control Fund, State Water Facilities Fund and Water Enterprise Fund. (Motion: Director Stevens/Second: Director Quigley)

Resolution No. 08-3138 Adopting the budget for the Capital Projects Funds. (Motion: Director Quigley/Second: Director Kalthoff)

Resolution No. 08-3139 Adopting the budget for professional services for the General/Flood Control and Water Enterprise Funds. (Motion: Director Greci/Second: Director Quigley)

Resolution No. 08-3140 Adopting the budget for professional services for the Capital Projects Funds. (Motion: Director Kalthoff/Second: Director Greci)

Item 9—Committees

- a. Finance Committee: February 7, 2008 – minutes available. The Committee met to hear a presentation on the proposed FY 2008-2009 budget. With minor recommendations to clarify some of the information, the Committee concurred with the budget being presented to the full Board for adoption at tonight's meeting.

Item 10—Items for Future Agendas—Directors

None

Item 11—Reports—Directors

Director Quigley reported on the following items:

- ACWA Energy Committee of March 14.
- There is a new Friends of Shadow Cliffs group.
- LLNL is participating in the Lake Mead Study to investigate the impacts of climate changes and the prediction that the lake may be dry by 2021. (Independent article of 2/7/08)
- Governor's plan for a comprehensive plan to restore the Delta and develop a new conveyance system.
- Energy: Safeway has announced it will be powering their truck fleet with biofuel.

Director Palmer conveyed a message from her students that attended the special meeting on January 30. The students wanted to thank the staff for the presentation, and they especially wanted to thank Director Greci for the extra effort he put forth to explain and teach them about the Delta plan which was being discussed.

Item 12—Staff Reports (Information items. No action taken.)

- a. General Manager's Report
- b. Recent & Upcoming Public Outreach Activities
- c. Quarterly Financial Report
- d. Verbal reports—None

There were no questions on the staff report items.

Item 13—Closed Session

Ms. Naamani announced that there was no need for a closed session.

Upcoming Board Schedule

- a. Ad Hoc Independent District Study Committee: March 5, 2008, 3:45 p.m. (Directors Greci, Palmer & Stevens)
- b. Administrative Committee: March 6, 2008, 3:00 p.m. (Directors Concannon, Greci & Stevens)
- c. Regular Board Meeting: March 19, 2008, 7:00 p.m.

There being no further business, the meeting adjourned at about 8 p.m.