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

REGULAR MEETING

October 15, 2014

The following were present:

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| DIRECTORS: | SANDY FIGUERS<br>JOHN GRECI<br>JIM MCGRAIL<br>SARAH PALMER<br>DICK QUIGLEY<br>ANGELA RAMIREZ HOLMES<br>BILL STEVENS |
| DIRECTORS ABSENT: | NONE |
| ZONE 7 STAFF: | JILL DUERIG, GENERAL MANAGER<br>KURT ARENDS, ASSISTANT GENERAL MANAGER, ENGINEERING<br>TAMARA BAPTISTA, FINANCE MANAGER<br>JAVIA GREEN, STAFF ANALYST<br>MATT KATEN, PRINCIPAL ENGINEER, GROUNDWATER<br>JUDY RECTOR, BOARD SECRETARY |
| COUNSEL: | DAVID ALADJEM, DOWNEY BRAND |

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The Board went into closed session at 6:00 p.m.

**Item 1 - Closed Session**

(a) Government Code Section 549547; Public Employee Performance Evaluation
Title: General Manager

(b) Conference with Legal Counsel - Significant exposure to litigation pursuant to Gov't Code Section 54956.9(d) (2): 3 cases

(c) Conference with Legal Counsel - Potential litigation pursuant to Gov't Code section 54956.9(d) (3): 1 case

(d) Conference with Legal Counsel - Existing litigation pursuant to Gov't Code Section 54956.9(d) (1):

Alameda County Flood Control and Water Conservation District, Zone 7 v. Pleasanton Gravel Co., Alameda County Case No. HG14724177

Contra Costa Water District, et al., v. Sacramento Regional County Sanitation District, Sacramento County, Case No. 05CS00908 (Consolidated with Case No. 05CS00913)

(e) Conference with Labor Negotiators:
Agency Negotiator: G.F. Duerig
Employee Organizations: Alameda County Management Employees Association; Alameda County Building and Construction Trades Council, Local 342, AFL-CIO; International Federation of Professional and Technical Engineers, Local 21, AFL-CIO; Local 1021 of the Service Employees International Union, CTW; Unrepresented Management.

**Item 2 - Open Session and Report Out of Closed Session**

The Board came out of Closed Session at 7:08 p.m.

President Greci announced that the Board of Directors has completed their performance evaluation of the General Manager and found it to be satisfactory. The Board will proceed in the coming weeks to establish mutually agreeable goals for the next year.

**Item 3 - Call Meeting to Order**

President Greci called the meeting to order at 7:09 p.m.

**Item 4 - Pledge of Allegiance**

Director Figuers left the meeting.

**Item 5 - Citizens Forum**

Jacquie Williams-Courtright, owner of Alden Lane Nursery in Livermore and former Zone 7 board member, requested that the board modify the current rationing plan in order to meet the needs of preserving water resources while enabling homeowners to protect their landscape assets, grow their own food, and establish water wise plants. Also attending in support were her colleagues Aires Souto, owner of Western Garden Nursery in Pleasanton, David Roth, Manager of Armstrong Garden Center in Dublin, Desiree Heimann of Armstrong's corporate office in southern California, and Alden Lane Nursery's General Manager Cyndee Carvalho.

Angelina Summers lives on Summergate Avenue in Pleasanton, and she said that all ten wells in the district are in Pleasanton. She lives one block from one of the wells, her house has shifted two inches and she has an estimate for almost $15,000 in repairs. Some of her neighbors have had pilings installed to stabilize their houses due to shifting. She asked the board to consider this when they are discussing water rates because she is already paying a price for the wells.

Margaret Tracy said she had asked questions of staff and the board concerning contaminants in our valley but had not received answers from the board or staff. A number of places in the valley, such as former dry cleaning locations, have contaminants that need to be disposed and she wants to know how Zone 7 is planning for it and how will it be funded.

President Greci reminded everyone that he appreciates all the information shared but the board is not allowed to react under the guidelines for the Citizens Forum.

Carma Hodges of Pleasanton said that when the Windemere division was developed in the Dougherty Valley there was not enough water to support it, and active building is still going on. She asked why Zone 7 is not speaking up against new building.

President Greci responded that he and the board are concerned about growth in the valley and that Zone 7's reliability is part of the Mission Statement. More water cannot be created but the developers do not come to Zone 7 for the building permits. The valley has our groundwater basin and we have to limit the amount of water we pump from it to a sustainable amount.

Marv Hodges of Pleasanton asked about the Board's action with respect to State water. He said that 40% of the state's water is under the control of environmentalists. Eleven percent of the state's water is for the people in the State of California; 42% for the farmers, and 48% for the environmentalists. He is challenging the Zone 7 Board to stand up and take back the water for the people of this valley. President Greci again stated that permitting and zoning is done by the cities, not Zone 7.

**Item 6 - Minutes of the Regular Meeting of September 17, 2014, and Special Meeting of October 1, 2014**

Director Ramirez Holmes moved to approve the minutes of September 17, 2014, and Director Quigley seconded. The minutes were approved by a voice vote of 6-0 with Director Figuers absent.

Director Ramirez Holmes submitted proposed revisions to the minutes prior to the meeting, and they were distributed to the Board. Director Palmer moved to approve the amended minutes of October 1, 2014, and Director Ramirez Holmes seconded. The minutes were approved by a voice vote of 6-0 with Director Figuers absent.

**Item 7 - Consent Calendar**

Director Palmer pulled Item 7(a) for discussion. Director Quigley moved to approve Items 7(b), (c) and (d) and Director Ramirez Holmes seconded. The motions were approved by a voice vote of 6-0 with Director Figuers absent.

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| Item 7(b) | Amend Contracts for Records Management Software Equipment and Support Services |
| Resolution No. 15-17 | Authorized amendments to the contracts with Incrementum and with Kaizen InfoSource. |

Item 7(c) Resolution Proclaiming the Week of October 20-25, 2014, to be California Flood Preparedness Week

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| Resolution No. 15-18 | Authorized Zone 7 participation in California Flood Preparedness Week. |
| Item 7(d) Personnel Action | Buyer I/II Position |
| Resolution No. 15-19 | Approved one unfunded position of Buyer I/II, Zone 7. |

Item 7(a) Joint Funding Agreement with USGS for Annual Stream Gauge Operations and Maintenance

Director Palmer's question was about funding in the U.S. Department of the Interior's September 29th letter. She asked why Alameda County Water District did not have to contribute to the Alamo Canal near the new wastewater treatment plant station. Kurt Arends, Assistant General Manager, Engineering, responded that the data will help with flood modeling and Zone 7 will be the primary beneficiary. She then asked about the Early Warning System for potential flooding and why Alameda County Water District would not be interested. Mr. Arends replied that it is for Zone 7 to establish the flows for early warnings within our service area. There are gauges downstream that measure flow leaving our watershed and going into Fremont and that is Alameda County Water District's primary concern.

Director Palmer moved that Item 7(a) be approved and Director Quigley seconded the motion. Item 7(a) was approved by a voice vote of 6-0 with Director Figuers absent.

Resolution No. 15-16 Authorized joint funding agreements with the USGS for stream gauges.

**Item 8 - Staffing Update**

Ms. Duerig announced that the August Employee of the Month was Allan Dahlquist, Water Facilities Supervisor at the Patterson Pass Plant. The Board applauded Mr. Dahlquist in absentia.

**Item 9 - Draft FY 15/16 Capital Improvement Program:**

- **Ten-Year Water System Plan**
- **Five-Year Flood Protection Plan**

JaVia Green, Staff Analyst, presented a summary to the Board on the Capital Improvement Program that included background, recent challenges, and major projects. The ten-year water system plan is for Funds 120 (Renewal/Replacement and System-Wide Improvements) and 130 (Expansion). The five-year flood protection plan is for Fund 200 (General Flood Protection) and Fund 210 (Flood Protection and Stormwater Drainage) and all are reviewed every two years.

Mr. Arends gave a brief background on the challenges and issues driving the CIP and talked about major projects. One of the key challenges is the poor water quality from the Delta coming in and it has impacted the treatability of the water due to the drought resulting in lower production at our water treatment plants as well as increased chemical costs. He discussed the Patterson Pass Ultra-Filtration Plant that was scheduled to be taken out of service when the Altamont Treatment Plant came online in 2009. Since Altamont was not built, Zone 7 has continued to use Patterson Pass UF for its production capacity but it is coming to the end of its useful life and the membrane manufacturer will no longer be producing those membranes. Production capacity of that plant will be reduced, the plant will become obsolete and will have to be upgraded and retrofitted, or other facilities will need to be constructed. He noted that some of the drought projects this year deferred some of the ongoing maintenance projects and Asset Management activities. Staff identified new projects or moved up projects in the CIP such as reliability inter-tie with another agency, Ozonation at DVWTP and PPWTP, PPWTP Expansion/New Media Filters, Chromium 6 treatment facilities, a Booster Pump Station, and Well Rehabilitation.

Director Figuers returned at 7:55 p.m.

Ms. Green discussed an overview of Fund 120 and the board-approved $3.3 million transfer to Fund 120 reserves from Fund 100 reserves to fund drought emergency projects. Because of the acceleration of the ozone projects and assumptions about Chromium 6 treatment, the fund balance drops below zero dollars in FY 17/18. Staff looked at three examples of funding: 1) base case; 2) debt financing for ozone and Chromium 6 treatment; and 3) deferring projects including blending or leasing equipment to treat Chromium 6 and not building permanent Chromium 6 facilities. The ozone at the DVWTP could also be deferred until FY 2024. Ms. Green pointed out the impacts of deferring projects and the tax and investment advantages of building capital facilities sooner. Additional evaluations and studies on debt financing will be forthcoming and will guide budgeting for further CIP decisions. The CIP is the plan but the projects are authorized as part of the annual budget.

Fund 130 includes fixed costs such as payments Zone 7 makes to others including for the South Bay Aqueduct Enlargement and Improvement Project and the Cawelo groundwater banking program. The

Connection Fee Study that is done every five years looks at the expansion program needs as well as the projected connections in the service area for new development.

The Flood Protection CIP, reviewed every five years, is funded by property taxes for Fund 200 and pays for maintenance and renewal/replacement of our existing flood control system ($10.6 million) and for system-wide improvements ($23 million). Fund 210, flood protection and stormwater drainage expansion projects, is projected to be $23 million over the next five years. There is sufficient funding for the Flood Protection CIP.

At the last board meeting, Director Palmer and Director Ramirez Holmes asked for a project list reorganized by year. Although a list was provided as part of the Executive Summary, it was organized differently than expected. Ms. Duerig said that it does group projects by each year, the type of project, and what years it covers so staff felt it addressed the request.

Director Ramirez Holmes noted that at the last meeting, the board was told that staff could do an average of 15 projects per year but there are 22 new projects that begin in 2015 and is that correct. Ms. Duerig clarified that any time Zone 7 has a shortage of staff for engineering projects, we rely more heavily on consultants as we did eight years ago where consultants did more design and construction management. As the economy slowed, the number of projects was reduced and more was done internally. Although an aggressive schedule, it was felt it could be done by using outside resources.

Director Ramirez Holmes asked about the Chromium 6 options. Ms. Green said the permanent Chromium 6 treatment projects for Chain of Lakes Well Nos. 1, 2, 5 and Stoneridge would occur in 2020. There will be at least two more CIP iterations before then so staff will have more information.

Director Ramirez Holmes asked about comments received at the retailers' meeting. Mr. Arends replied that the retailers' asked for more information on the impacts of deferring projects. She referred to the letters presented by DSRSD and Hacienda Business Park about their evaluation and participation in partnership with Zone 7 and if their concerns had been addressed. She also is upset that the CIP did not go to a committee.

Mr. Arends said it is important to understand the magnitude of the future projects that are funded through the different funding mechanisms and the amount of upcoming improvements that need to be made. These are separate from water rates and the funding for Funds 120, 130, 200 and 210 are critical for future projects and they need to be in the funding plan.

Ms. Duerig added that there is no recommendation by staff to make any change in the transfer schedule between Fund 100 and Fund 120. If the board chooses to follow this aggressive schedule in the future, we may be looking at incurring debt. If the board chooses not to incur debt, then the discussion will be about what projects should be deferred. Mr. Arends clarified that the CIP is based on the existing AMP transfers established by the Board.

Director McGrail said the Board has been using pay-as-you-go financing but he would like to see staff do a study on debt financing, and why are we paying today when future users will benefit without paying?

John Archer, Dublin San Ramon Services District, commented on the importance of financing and cash flows. There are $50 million worth of new projects proposed and the Board needs to seriously consider how to pay for them because that could mean another 10-20% added to future rates.

Director Stevens moved and Director Quigley seconded the motion. Item 9 was approved by a roll call vote of 7-0.

Resolution No. 15-20 Adopted the Fiscal Year 15/16 Capital Improvement Program.

**Item 10 - Treated Water/Recharge Rate Schedules for 2015 and 2016**

Tamara Baptista, Finance Manager, reminded the Board that staff had two Finance Committee meetings, three meetings with the retailers, and one Board meeting on water rates. She broke down water rate components into revenue, expenses and reserves, as well as background on the board-adopted 2013 water rates of 0% and a 2.65% CPI for 2014. For FY 12/13, reserves did increase $4.2 million, and based on the unaudited actuals for FY 13/14, the reserves decreased approximately $900,000.

Ms. Baptista summarized the results of the Finance Committee meetings. At the September 8, 2014, Finance Committee meeting, the first calculation was for a 12% increase for 2015, and a 3% CPI for 2016 was suggested based on input from the retailers. The second calculation was for a 3% CPI and a 9% drought surcharge for 2015 & 2016, but the 12% increase was too high and the Finance Committee members were not comfortable with the concept of a drought surcharge if there was an automatic trigger.

At the October 1, 2014, Board meeting, the resulting calculations included one for no water rate increase as requested at the September 8th Finance Committee meeting. The second calculation was for a 3% CPI with a lower transfer to Fund 120 for AMP as the Finance Committee had requested a creative way to keep rate increases as low as possible. Calculation 3 was for 7% for 2015 and 2016; covered two years' cost of service, and was reserve neutral over the two-year period of analysis. This would be the lowest possible rate increase with the smallest impact on reserves during the two-year period. The board decided to eliminate the baseline of no increase and develop a third option with a base rate and a drought surcharge.

Calculation 1 for the October 15, 2014, Board meeting was for a 7% water rate increase for 2015 and 2016; Calculation 2 was for a 3% CPI with a lower transfer to Fund 120 for AMP in effect using $3.5 million in reserves from Fund 120, as well; and Calculation 3, the new option, was for a 5% increase for non-drought related cost of service and a 2% drought surcharge for 2015 and 2016 (starts January 1 and ends December 31 of each year) that partially covers the drought-related cost of service. The remainder of the cost of service and loss of revenue is covered by the use of reserves but this option still uses another $1.2 million of the Rate Stabilization Reserve in FY 15/16 and FY 16/17.

Ms. Baptista explained that there had been a change in the proposed reserve allocation. At the October 1 Board meeting, the financial consultant recommended increasing the emergency reserve level from 2% to 3%, but based on the feedback received at that meeting, it was returned to the previous level of 2% and is consistent in all three options presented in the staff report and at this meeting.

Director Palmer said at the previous board meeting she asked for the 3% but also wanted to see the drought surcharge on the 3% to see what it would look like. Ms. Baptista showed a graph with 3% plus a 2% surcharge for 2015 and 2016. Director Palmer verified that it would be 3% each year plus a 2% surcharge for both years and she agreed that the graph is what she asked for previously.

Director Ramirez Holmes asked where Option 3 came from because Board direction was 3% plus the drought surcharge. Ms. Duerig said there was a range of opinions voiced but Board direction was unclear. The minutes of the meeting noted that a 3% base, plus a surcharge was discussed but once we looked at our cost of service for the next two years, our base non-drought related costs of service increased by 5%, rather than 3%. Director Quigley agreed that board direction was unclear.

Director Quigley asked if the Governor cancels the drought emergency, would that sunset the 2% drought surcharge from Zone 7. General Counsel Aladjem said no, because an emergency resolution was adopted, but when adopting a drought surcharge, it would be for calendar years so it would not be tied to whatever the Governor said. Ms. Duerig said there could be some political opinion that if the statewide or local drought emergency was lifted, there might be expectations by the community that Zone 7 would also lift the surcharge. Director Ramirez Holmes said if we assume a one-year drought for all of the rate settings, the community could also assume that the drought surcharge would only be for one year.

President Greci said the Governor has the right to declare the drought over and it may be over in other areas of California but it may not be over for us. If the State still does not give us our allocation, we still have to deal with the drought so he is not in favor of a drought surcharge. Stay with 7% and avoid the issue of dropping the surcharge later and recalculating rates. The 7% was based on our operating costs and what it takes for us to keep our reserves where they belong. Zone 7 used reserves this year and didn’t charge anything because there was not an increase. He is more comfortable with the 7% increase.

Director Quigley said he agrees with President Greci on the 7% increase. He says the Board needs to recognize that rate increases were not given for several years and that needs to be considered. He feels that we have dug ourselves into a hole and the retailers always want less, but in order to bring the community an abundance of water, he is in favor of 7%.

Director McGrail said that the 7% information in the Board packet is different from what was presented at the meeting. He had questions on the ending reserve balances and noted that the difference between the 3% and the 7% is about $600,000 for FY 14/15 and FY 16/17. Ms. Duerig pointed out the lower transfer in the 3% option.

Ms. Duerig also noted that Zone 7 did receive letters from Dublin San Ramon Services District and the Hacienda Owners Association and copies were available for the board and public.

Director Ramirez Holmes said that because numbers and percentages are hard to follow, she passed out written comments on FY 14/15 projected reserves surplus and explained why she thought a surcharge is not necessary. She also noted that the option preferred by retailers shows that Zone 7 is well over the minimum reserve amounts and is at or over the maximum in two out of four funds. Her concern is that the emphasis has been that Zone 7 reserves are going to be low but they are well over the midpoint for the maximum reserves. The board adopted a policy to transfer funds for capital projects but the board authorized the transfer of more money, which was not following the policy as the retailers had asked. Option B gives back that extra money by following the policy and requires no use of reserves in FY 15/16. Her concern is that retailers and customers are willing to make Zone 7 whole but ask for justification. She does not think a drought surcharge is needed. She explained how the idea of combining the two reserves also does not follow the reserve policy. She said 3% and 3% makes Zone 7 “whole” and wants policies that can be followed and show real numbers. There is no policy to do a drought surcharge.

Director Figuers asked what do we mean by reserve levels and how are they used? Ms. Baptista answered his questions about the AMP transfer schedule but there was more discussion about the three proposals.

President Greci opened the meeting for public comment.

Dan Martin, City of Pleasanton, feels Option 2, 3% CPI, is still within the board's reserve policy minimums so he asked the board not to do an increase greater than the CPI. The impression given is that if the money is not transferred, critical projects and emergency deferred maintenance will not get done but that is not how CPI projects are funded, staffed and completed. He said that in his experience there are more projects than can be completed on purpose but they track what is needed and higher priority projects move to the top.

Darren Greenwood, City of Livermore, feels what when reserves meet the minimum level, it means that Zone 7 is fully funded for every contingency thought of by the Board and staff. He is not aware of a rate being set in the past to protect a reserve and those reserves were generated over time, mostly by surpluses. The Board packet shows an extra $4 million has been budgeted and was put into reserves for situations when it is needed. He disagreed with having a Rate Stabilization reserve with a minimum balance that cannot go to zero dollars, and asked the board no matter what they decided about rates, to think about reserve policies in the future: 1) set a maximum on the Rate Stabilization reserve; 2) set the minimum for the Rate Stabilization reserve to zero; and 3) establish what happens when that maximum is reached – do you reduce rates, find a new project to spend it on, where does that money go and how do we stop accumulating it? Livermore has their own surcharge for conservation rates and the reason for a surcharge is either to cut demand or make you whole on your resources. He encouraged the Board to consider ending the surcharge early if water is not purchased or demand is higher.

Kathy Narum, Pleasanton City Council member, agreed with Director McGrail on the insignificance in the total reserves between the three options. She asked the Board to be cautious in setting rates. Since the residents have done so well with conservation, she feels community leaders need to curtail their spending and do their best to soften the rate increases. She asked the Board to consider the 3% with CPI rate increase. A temporary drought surcharge may be appropriate in the future but more justification is needed for how and why the increase will be used. Show projected and planned water purchases and if and when the reserves will be used. She noted the collaboration with the retailers, stressed a more conservative approach to setting rates during the drought emergency, and asked the Board to demonstrate more sensitivity to the impact of conservation on residents and businesses.

Karla Brown, Pleasanton City Council member, told the Board that it is understood that Zone 7 must collect fees to maintain fiscal sustainability, but the method of collection and timing needs to be taken into consideration. Residents have incurred additional costs for conservation and there must be a nexus between the fees that are being charged and the services provided. She supports the idea of a cost-basis increase and wants a tie between actual costs and rates. She invited the Board to come to a City Council meeting and have a discussion with the citizens who are paying money for late fees, service fees and additional penalties in addition to their water bill because they wanted to use the amount of water it takes to water their yard and take a shower.

John Archer referred to the letter from the DSRSD Board of Directors recommending 3% but noted there is a volume differential because of the drought. DSRSD does support sun setting the drought charge to make Zone 7 whole. They also asked the Board to consider total reserves when setting rates.

Director Stevens said the AMP should be discussed in the future and he supports 7% and 7%. Director Palmer said that if there is problem down the line that can be justified, then raise the rates in the future. If we don't need to do that much now, don't do it, so she is in favor of 3% and 3%. Director McGrail said reserves are needed but the money belongs to the people and if it is not needed, Zone 7 should not be banking it. He made a promise during his election that his mission statement was to have sustainable, clean water at the most decent price possible. He feels 3% and 3% is fine for now and can be increased later, if needed. Director Quigley thinks the 7% option is the best because it helps preserve reserves and helps fund Zone 7's fixed and variable costs. Director Figuers said he is voting for 3% and 3% because the 7% means that at the end of two years, we have added to our reserves and made a profit. If the drought continues, Zone 7 may need to use drought emergency and rate stabilization reserves again but that is why they exist.

Director Ramirez Holmes moved for approval of Option B as proposed (3% CPI with a lower transfer to Fund 120 for AMP and no drought surcharge) and Director McGrail seconded the motion. The motion passed with a roll call vote of 4-3, with Directors Figuers, Palmer, McGrail and Ramirez Holmes voting "yes" for Option B and President Greci and Directors Stevens and Quigley voting "no" against Option B.

Resolution No. 15-21 Adopted the Treated Water Service Rates for 2015 & 2016 effective January 1, 2015, and ending on the next effective date for such water rates:

a) Treated Water service charge of $144 per month per metered service for 2015 and $148 per month per metered service for 2016;
b) A recharge fee of $702 per acre-foot for 2015;
c) A Temporary Treated Water service establishment charge of $144 per turnout for 2015 and $148 per turnout for 2016 for each new direct connection to the Zone 7 system;
d) A service charge of $144 per month for 2015 and $148 per month for 2016 for the connection for Fire and Standby services;
e) A water rate of $112 for CY 2015 for In-Lieu water services.

**Item 11 - Untreated Water Rates for 2015**

Ms. Baptista gave a brief presentation on the untreated water rate proposal for CY 2015 of $130 per acre-foot, which is an 18% increase over CY 2013-14. The untreated water rate is a pass through for the cost of imported water, supplemental water purchases, and program administration. Ms. Baptista showed the Board a history of untreated water rates from 1994 to the proposed rate for CY 2015.

Director Ramirez Holmes asked about notification to the untreated water contractors regarding the rate increase. She also asked about the new charges for Cawelo and Semitropic, and arsenic treatment for pump backs. Ms. Baptista said it is an estimate based on a projection of how much water may be purchased in CY 2015. Staff looks at total water supply and water sources available divided by the total volume of water delivered to both treated and untreated customers so everyone pays their share.
Zone 7 does plan on purchasing recovery water from Cawelo and Semitropic for treated and untreated customers. Director Ramirez Holmes asked what if we don't purchase that pump back water, is there a policy to refund money? Ms. Baptista said it is part of the rate but in 2014, Zone 7 purchased water and it was not part of the rate so it is a deficit in that line item. Director Palmer clarified that it is not a policy, just a methodology. Director Ramirez Holmes pointed out the methodology is new and there was no discussion with the untreated customers. In addition, an untreated customer mentioned that there

had been a change from fixed costs to property taxes so there is a variable rate each year and if the Delta charges from previous years were taken out, this would be the highest untreated water rate in history. In response to a question from Director Ramirez Holmes about the Delta charge, Ms. Baptista said the Delta charge was added in 2009-2010 and there was a shift from $171/acre-foot to $97 several years ago because some of the DWR fixed costs were on water rates and they were shifted to property taxes. Ms. Baptista confirmed that it is the highest dollar amount but not the highest increase, and that it fluctuates over the years.

Ms. Duerig explained further that staff does not look at just the dollar amount because inflation has to be backed out of the numbers. Staff looks at the gradual trends and whether they match and this is just a pass-through of calculated costs. Zone 7 has not had access to Cawelo, a new bank of water, until this year.

Director Ramirez Holmes said her concern is about process and we should reach out to the untreated customers when we have a change in the calculation so they understand why it is being done. She thinks those customers should have had an opportunity to weigh in and be invited to participate. Director Palmer had complaints about the untreated rate and told those customers about this Board meeting but they did not attend. Director McGrail, an untreated water customer and a residential customer, asked General Counsel Aladjem if he should proceed or abstain from voting and was told he could proceed. Director McGrail said notice to the agricultural customers is needed because they are losing cattle and it is their livelihood. He would like to see this item tabled and everyone should be noticed. The Directors continued to discuss the issue of notification, wheeling water rates, and that only administration charges are negotiable.

President Greci asked for public comments.

Director Stevens moved and Director Quigley seconded the motion. Item 11 was approved by a roll call vote of 5-2 with President Greci and Directors Palmer, Stevens, Quigley and Figuers voting to approve the motion and Directors McGrail and Ramirez Holmes voting against the motion

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| Resolution No. 15-22 | Approved the 2015 untreated water rate of $130/AF, a temporary untreated water rate of $509/AF, a non-scheduled untreated water rate of $309/AF and a surplus untreated water rate of $240/AF. |

**Item 12 - Proposed 2015 Municipal & Industrial Water Connection Fee**

Ms. Green reminded the Board that they had resolved to update the M&I water connection fee regularly to keep pace with inflation, and based on Zone 7's philosophy that new development pays for itself. The fee pays for short, year-to-year and long-term expansion program costs and is updated every five years. The last study was in 2011 and the next study is planned for 2016. Staff recommends increasing the current fee by 3.33%. The normal methodology used every year is based on an increase in the ENR 20-City CCI from September 2013 to September 2014. The resulting 2014 fees are $24,830 for the Zone 7 service area and $22,980 for Dougherty Valley. Staff recommendation is to adopt the resolution approving connection fees for 2015.

Director Quigley moved and Director Stevens seconded the motion. Item 12 was approved by a roll call vote of 7-0.

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| Resolution No. 15-23 | Amended connection fees within the Zone 7 service area and the Dougherty Valley service area. |

**Item 13 - Agreements Associated With the El Charro Specific Plan Agreement**

Kurt Arends reminded the Board that in 2010 they approved the El Charro Specific Plan Agreement with the City of Livermore. Zone 7 worked with the City of Livermore on the Specific Plan for the El Charro area to incorporate flood control or flood protection improvements into that project. The result of that agreement was the construction of several flood facilities, plus other projects including land use and mitigation. Zone 7 contributed $10 million towards the project, and to date, $9.5 million has been paid to Livermore and the other $0.5 million will be paid when all obligations are fulfilled. Three final pieces that need to be completed are the Floodway/Floodplain Agreement, Maintenance of Mitigation Area Agreement, and Covenant and Deed Restriction. Staff is seeking board approval of the three agreements with the City of Livermore, and then Zone 7 will pay the balance.

Director McGrail moved and Director Ramirez Holmes seconded the motion. Both resolutions for Item 13 were approved by a roll call vote of 7-0.

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| Resolution No. 15-24 | Authorized the Floodway/Floodplain and Maintenance Mitigation Area Agreement. |
| Resolution No. 15-25 | Authorized the Covenant and Deed Restriction and recommends that the Board of Supervisors execute same. |

**Item 14 - Proposed Well Ordinance**

Mr. Arends informed the Board that in response to the letter received from Alameda County Public Works Agency (copies distributed) regarding the draft Well Ordinance, a meeting has been set up with County staff to discuss their concerns. No action is being taken at this meeting. In reference to the letter, Director Stevens pointed out that when you drill in Zone 7 territory, you get a Zone 7 permit, not an Alameda County permit, and it has been this way for years at no charge. Director Ramirez Holmes asked if the item should be deferred if the board would benefit from information obtained at the meeting with the County. President Greci said that this item is only the first reading of the draft. He wanted to hear the presentation before discussion.

Matt Katen, Principal Geologist in the Groundwater Section, said the intent of it is for the Zone 7 Ordinance to replace or supersede the existing County Well Ordinance within the Zone 7 service area. The State began requiring well ordinances in 1967 and Alameda County adopted one in 1973. Zone 7 was administering the Ordinance for the whole county except for Alameda County Water District's (ACWD) portion. Public Works took over the western county after twenty years and Zone 7 continued to administer the Ordinance in its service area. The Cities of Livermore, Pleasanton and Dublin adopted the County Ordinance or a resolution authorizing Zone 7 to administer and regulate well drilling in their jurisdictions. The State developed the State Model Ordinance template with minimum standards for the entities that didn't have a Well Ordinance. The County elected not to change their Ordinance at that time.

Zone 7 is the last Bay Area agency to not charge permit fees, and the current permit program is funded by water rates. Zone 7 has received input and support on the Well Ordinance from Tri-Valley cities, retailers and the Zone 7 Water Resources Committee.

Goals in developing this draft Ordinance included conformance with the State Model Well Standards Ordinance; clear permit requirements, well construction standards and enforcement steps; increases in groundwater protection; providing for Zone 7 well and soil boring permit fees; and strengthening Zone 7's position for maintaining local control over the groundwater basin in light of recent State groundwater legislation.

Mr. Katen described the Ordinance features and how they were determined. The Zone 7 jurisdictional area does not include Dougherty Valley or an overlap Sphere of Influence with ACWD. Staff determined a fee amount based on program expense and permit type which covers about 97% of the program's costs, and Mr. Katen went into details on how those fees were developed. He also showed the Board a permit fee comparison with ten other agencies. Zone 7 would not have the highest or the lowest permit fees.

Recommended actions are to discuss the draft Ordinance and proposed permit fees, ask for public input, and provide direction to staff.

Director McGrail, President Greci and Director Figuers discussed proper well destruction. Director Figuers suggested lowering the $700 cost in order to encourage proper well destruction.

Director Figuers said there is a distinction in the document between water supply wells, wells used to produce water, and geotechnical borings that will give information. He questioned various definitions and areas of the document. Since this agenda item is only for discussion at this meeting, President Greci suggested that the board write down their questions and present them to staff.

Director Ramirez Holmes asked several questions but noted that she did not expect answers at this meeting: 1) what is the current process for wells?; 2) how many wells do we have and whether Zone 7 has the right to inspect them now in lieu of the Ordinance?; and 3) she wants to know more about special requirement areas and why we are against a public hearing to change those requirement areas.
Mr. Katen commented that all of our current provisions are included in the current program, and for the past 40 years Zone 7 has been issuing permits. Director Ramirez Holmes asked about a current ordinance or policy and requested the information for current permit conditions.

President Greci said that the Well Ordinance appears to be something Zone 7 is already doing and Director Ramirez Holmes added that the Board could have a first reading and put the second on consent. Since Zone 7 has not had a meeting with the County and there are still questions and this is the first reading, she would like some of the questions answered and would prefer to have the first reading at the next meeting.

**Item 15 - Committees** - Joint Water Liaison Meeting with DSRSD/Zone - August 27, 2014 - notes pending

**Item 16 - Reports - Directors**

a. Verbal comments by President - none
b. Written report by Director Quigley
c. Verbal Reports

**Item 17 - Items for Future Agendas - Directors**

Director Stevens asked staff to talk to the retailers about the Asset Management Plan (AMP).

Director Ramirez Holmes said that the Hacienda Business Park Owners Association had brought up some comments that they had no objection to the philosophy behind the connection fee increase but they would like to have a meeting with further information and input. She asked staff to set up a meeting with them since they requested the meeting in writing.

Ms. Duerig clarified that there is a lot of outreach for both the AMP updates and the connection fee studies. Both of the updates are scheduled within the next two years. The last AMP update in 2011 involved the retailers every step of the way from defining the scope to finding the consultants, and Zone 7 will have that collaborative process again. The connection fee update is also scheduled within the next couple of years. Previously staff met with developers and other stakeholders.

**Item 18 - Staff Reports** (Information items.)

a. General Manager's Report
b. Monthly Budget Report
c. September Legislative Update
d. September Outreach Activities
e. Drought Update
f. Verbal Reports

**Item 19 - Adjournment**

The meeting was adjourned at 10:48 p.m.