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

REGULAR MEETING
October 20, 2010

President Greci called the regular meeting to order at 7:00 p.m., with a salute to the flag. The following were present:

DIRECTORS:	SANDS FIGUERS JOHN GRECI A J MACHAEVICH CHRISTOPHER MOORE (via speakerphone from the Sheraton Station Hotel in Pittsburgh, Pennsylvania) SARAH PALMER RICHARD QUIGLEY BILL STEVENS
DIRECTORS ABSENT:	NONE
ZONE 7 STAFF:	JILL DUERIG, GENERAL MANAGER REN NOSKY, GENERAL COUNSEL KURT ARENDS, ASSISTANT GENERAL MANAGER, ENGINEERING VINCE WONG, ASSISTANT GENERAL MANAGER, OPERATIONS JOHN YUE, ASSISTANT GENERAL MANAGER, FINANCE JUDY RECTOR, ACTING BOARD SECRETARY

Item 3 - Citizens Forum

None.

Item 4 – Minutes of the Regular Meeting of September 15, 2010

Director Quigley moved and Director Palmer seconded approval of the minutes of September 15, 2010. The vote to approve was 7-0.

Item 5 - Consent Calendar

Consent Item 5c was pulled for discussion and a public hearing.

On a motion by Director Palmer and seconded by Director Quigley, Consent Items 5a and 5b were approved and the following resolutions were adopted by a vote of 7-0.

Resolution No: 11-4033 Approved one unfunded position of Facilities Maintenance & Construction Supervisor position. (Item 5a)

Resolution No: 11-4034	Approved the bid and authorized the General Manager to execute a contract with Redwood Painting Co., Inc. as the lowest responsive and responsible bidder for the bid amount of $36,600 for the Patterson Pass Water Treatment Plant Sodium Hypochlorite System Modifications Project No. 208-12. (Item 5b)

Item 5c: Public Hearing for Power Purchase Agreement with Borrego Solar Systems, Inc. for the Del Valle Water Treatment Plant

Assistant General Manager of Finance John Yue introduced a short presentation by Dennis Gambs, Principal Engineer, Real Property/ROW, involving a new solar Power Purchase Agreement for a 345-kilowatt photovoltaic electricity generation facility. Staff recommended authorizing the General Manager to execute that Power Purchase Agreement with Borrego Solar to provide solar energy. The key points of Borrego's proposal are a cost of $0.12/kWh with a maximum 3% annual escalation factor for a 20-year term. As part of the approval, the Board needs to make certain findings as specified in Government Code 4217.12. This agreement and project would replace the one made with RTI who was unable to complete the project. The most cost beneficial proposal of the four received was with Borrego, considering the savings over a 20-year period. Zone 7 would benefit over $800,000 over this period. This is contingent upon extending the Step 4 California Solar Initiative (CSI) rebate from PG&E (there are positive indications verifying that extension but they are verbal). As part of this agreement, Borrego will enter into a Purchase Agreement with RTI to purchase those facilities it chooses to use.

Steve Birndorf, Project Developer for Borrego Solar, was present and answered questions from the Board.

President Greci asked if we are locked in at 12 cents and how long the kWh has been 12 cents. Steve Birndorf explained that is the rate Zone 7 will be paying to Borrego because, as the system provider, they will be buying the energy from PG&E at the prevailing rate based on time of use which is approximately 15 cents compared to the 12 cents.

Steve Birndorf explained that Borrego's panels are expensive; however, they have a specific capacity of 1800 versus a fixed one at 1500, so the cost is offset through improved harvesting of energy and efficiency, and the economy is passed on to the customer. He clarified that Zone 7 only purchases energy if it uses it so if the panels are down, broken, or do not work, Zone 7 is not buying any of that energy. Over the course of the year in summer months when there is a lot of energy produced, Zone 7 could theoretically be net positive and selling back to the utility. Borrego will size the system so Zone 7 is always consuming.

President Greci officially opened the public hearing and asked for public comment.

Director Machaevich questioned the life expectancy of panels for 25 years or will they be maintained for 25 years and then we have the right to purchase the facility? Mr. Birndorf responded that they are warranted for 25 years because solar does not have any moving parts to break, it is a proven technology, and should produce energy for 30-35 years. There are buyout provisions if PG&E prices increase so Zone 7 can exercise the option to purchase and pocket the savings.

President Greci reiterated that all maintenance is Borrego's. Zone 7 buys the power, and gives Borrego a space to place panels. Mr. Birndorf verified that they own, operate, and maintain everything and Zone 7 purchases the power at a fixed rate that is defined for 20 years. If anything happens to the panels, it is Borrego's responsibility.

Since there was no public comment, President Greci officially closed the public hearing. Director Palmer moved and Director Quigley seconded the motion to authorize the General Manager to execute an agreement with Borrego to purchase solar energy. Resolution No. 11-4035 was approved by a 7-0 vote. (Item 5c)

Item 6 - Staffing Updates

Item 6a - Employee of the Month Recognition

Karen Bartels, Buyer II, is the August 2010 employee of the month. Karen works in the Financial and Systems Services Section of the Finance Division at the North Canyons Facility. According to the recommendation, she is very dedicated to her work, strives to provide superior service for Zone 7, and in the Purchasing area gets to deal with all the County policies and all the hurdles. She keeps us all going and does it with a smiling face.

Item 7 – Treated Water Rate for 2011

John Yue introduced Tamara Baptista, Financial & Systems Services Manager, who had a short presentation for the Board in regards to the treated water rate recommendations. The purpose of the presentation was to address Director comments from the last Board meeting. She referred to a handout and power point presentation that contained a slide for the 2011 Water Rate Analysis with Alternatives 1, 2, and 3 listed. All alternatives are the same with the exception of the use of reserves.

The next slide was a projected water rate increase comparison. Ms. Baptista explained that all alternatives are feasible. The down side of having a lower water rate increase for 2011 means that there will be higher water rate increases in the future if all things stay the same such as operating expenses and Zone 7's assumptions for revenue.

An informal poll of other Bay Area Water Rate Agencies and their proposed rate increases are as follows:

Contra Costa Water District: 4%
Alameda County Water District: 6 to 7%
Marin Municipal Water District: 4 to 5%
San Francisco Public Utilities Commission: 5% and their wholesale water rate is 15%
East Bay Municipal Utility District: 5 to 7-1/2%
Santa Clara Valley Water District: 5%

Director Stevens had requested a comparison of Zone 7's projected water rate increases to actual water rate increases, going back ten years from 2001 to 2011. In 2005 there was an Asset Management Program Study which resulted in a recommendation for an annual transfer of ramping up from $4 million to $10 million from the Water Enterprise Fund to Renewal/Replacement.

Director Quigley had requested a list of deferred Capital Improvement Projects which were included in the presentation.

President Greci commented that Capital Improvement deferred projects were thought out very constructively to save money. In future years we cannot re-use those as far as any consideration for rate decreases or increases; it is a one-time deal to be considered for cuts. If we are going to cut more, it has to be for new deferred projects. If anything else comes up where we have to cut, it has to be something new.

Mr. Yue reminded the Board that most of the rates are driven by the overall treated water rate. It was agreed to do Item (b) of the treated water rates first and then the others.

Director Moore commented that the members of the Finance Committee had come out in favor of a 0% increase and it can be done with the reserves that Zone 7 has, plus it would make a statement to retailers and customers that we understand the current economic situation they are going through. He is proud of the fact that Zone 7 is fiscally responsible, doesn't buy things unless they can pay for them, plans well, and properly plans the use of reserves. After looking at the amount taken from unrestricted reserves, he would be more comfortable with something nominal like 2% for 2011, leave the reserves at the same level, and at the same time keep the future water rate increases at a lower level. He also does not feel that we should be looking at 8% rates next year, regardless of this year's increase .

Director Palmer said she agrees with Director Moore. At the end of the General Manager staff report, there is a comment about Special Districts maintaining adequate reserves:

> The Special District and Local Government Institute recently emphasized the importance of maintaining adequate reserves in currently uncertain economic times; the implications of "GASB 34" (Statement No. 34 of the Governmental Accounting Standards Board) on infrastructure maintenance, particularly in light of the San Bruno PG&E incident; and the need for maintaining financial oversight and controls.

She favors a nominal increase so that Zone 7 doesn't use reserves as much because the world is not coming out of its bad economic situation soon. A large increase, if needed next year, would really upset people. Better to have a nominal increase now, not as much next year, not dip into reserves as much, and be ready to use our reserves if we have an infrastructure problem.

Director Quigley agreed with Directors Palmer and Moore and said he can't support a 0% increase and does not know of any water agency thinking of a 0% increase. The General Manager's weekly report on breaking pumps and leaking lines that happen in the course of business show that Zone 7 needs to have reserves and a rate implemented that makes sense. He leans towards a moderate one and supports an increase of 2-1/2 to 4% for the best buy in town, about 1/10th of a penny for 8 oz. of water.

Director Figuers disagreed and talked about discretionary spending: things get bad, you don't spend. He also questioned what is the purpose of a reserve? A reserve is what you use when you have problems; if you never spend the reserve, why have it? He does not see the growth rate of the Valley returning for at least another decade so when we start looking at deferred CIP projects, many of these projects are getting deferred for one to three years but may not be needed for another decade. A nominal increase would be reasonable but he is sticking with 0%.

Director Machaevich feels the responsible thing to do is a minimal raise due to, for example, infrastructure problems and increased chemical costs. It is reasonable to have a small rate increase to protect us from borrowing money in the middle of a recession, and it is important that water quality and infrastructure are protected.

President Greci said that Zone 7 staff does a lot of planning and forecasting on connection fees. We do not have any other source of income for this organization other than connection fees and selling water. We have the capability of transferring funds (borrowing from Peter to pay Paul), but there is only so much money in that pot and we can't solve our problems by shuffling funds. If you have emergency reserves to use when something comes up so you don't have to borrow so much, that is good business sense. The Board is here to manage this organization the best we can so we don't put a burden on the public. We represent them. He is for at least a 2-1/2% raise.

Director Palmer moved for a 2-1/2% increase and Director Quigley seconded. A roll call vote resulted in 5 ayes and 2 no's with Directors Figuers and Stevens dissenting.

Mr. Yue affirmed that the numbers in the resolutions change because they were based on 0% and he will have to get back with the new numbers based on a 2-1/2% increase.

Bert Michalczyk, General Manager of Dublin San Ramon Services District, complimented General Manager Jill Duerig and staff regarding the process of being involved with the retailers much earlier and their explanations were much easier to understand. He feels the right decision will be made for the community.

Mr. Yue was able to present the new rates based on a 2-1/2% treated water rate increase.

The resolutions were moved, seconded and voted on individually as follows:

Director Palmer moved and Director Quigley seconded the motion which was approved by a roll call vote of 6-1 with Director Stevens voting no.

Resolution No. 11-4036 Approving a Delta charge of $23 per acre-foot to be included for all treated water rates. (Item 7a)

Director Palmer moved and Director Quigley seconded the motion which was approved by a roll call vote of 5-2 with Directors Figuers and Stevens voting no.

Resolution No. 11-4037 Approving a treated water rate schedule for 2010; based on a 2-1/2% increase, this is $900 per acre-foot which includes the Delta charge. (Item 7b)

Director Palmer moved and Director Quigley seconded the motion which was approved by a roll call vote of 6-1 with Director Stevens voting no.

Resolution No. 11-4038 Approving a recharge fee of $641 per acre-foot which includes the Delta charge. (Item 7c)

Director Quigley moved and Director Palmer seconded the motion which was approved by a roll call vote of 6-1 with Director Stevens voting no.

Resolution No. 11-4039	Approving a temporary treated water rate schedule of $3.69/100CF which includes the Delta charge. (Item 7d)

Director Quigley moved and Director Machaevich seconded the motion which was approved by a roll call vote of 6-1 with Director Stevens voting no.

Resolution No. 11-4040	Approving a treated water rate schedule for private fire and standby service of $3.69/100CF which includes the Delta charge. (Item 7e)

Director Quigley moved and Director Machaevich seconded the motion which was approved by a roll call vote of 7-0.

Resolution No. 11-4041	Approving an In-Lieu Water Rate of $98 per acre-foot. (Item 7f)

Item 8 – Preliminary Untreated Water Rate for 2011

JaVia Green, Staff Analyst in the Financial and Systems Services Department, gave a presentation on untreated rates for 2011.

Director Quigley asked if we got any comments or questions from untreated customers? General Manager Jill Duerig responded that we had some questions and there was confusion because of the decrease.

Director Palmer moved that Item 8 a, b, c and d be approved and Director Machaevich seconded. A roll call vote was taken and all four resolutions were approved by a vote of 7-0:

Resolution No. 11-4042	The untreated water rate is $97/acre-foot (AF). (Item 8a)
Resolution No. 11-4043	The temporary untreated water rate is $395/AF. (Item 8b)
Resolution No. 11-4044	The non-scheduled untreated water rate is $395/AF. (Item 8c)
Resolution No. 11-4045	The surplus untreated water rate is $209/AF. (Item 8d)

Item 9 – Proposed 2011 Development Impact Fee – Municipal & Industrial Water Connection Fee

Ms. Green also discussed the 2011 Municipal and Industrial Water Connection Fee. Per the existing ordinance, this fee can be increased by a change in the Engineering News Record Construction Cost Index. The change from September 2009 to September 2010 is 3.2% and staff is recommending increasing these fees by 3.2%, resulting in a fee of $22,230 for the Zone 7 service area and $20,580 for the Dougherty Valley service area.

Director Stevens asked if we are arbitrarily increasing it because we can? Or was there something presented to Finance Committee that justified this increase? Ms. Green responded that it was presented to the Board in September but it was not presented to the Finance Committee. It was a straight-forward Index adjustment as allowed in the Ordinance.

General Manager Jill Duerig said that every 3-5 years staff does an in-depth analysis based on engineering estimates for future projects that have not yet been designed, and that is how we set these connection fees. Zone 7 is due to have that detailed analysis within the next 12 months. In the next year Board members will see a more analytical approach; during the in-between years the Construction Cost Index is applied.

Director Moore asked what would be the impact on the budget with the number of connections if we went for a 0% increase? Ms. Green responded that this would directly impact the ability and needs of expansion projects which has slowed down significantly. Zone 7 has many fixed obligations that we have to pay out of this fund such as the South Bay Improvement and Enlargement project and the groundwater banking program, as well as the interest on the ISA.

Randy Werner, City of Livermore, had two comments: The City is reducing their water connection fee a small amount, $60-$70 for a 5/8" connection, but the Zone was at $830 dollars for a long time. Using the ENR is excellent: don't go 16 years without increases as past Zone 7 Boards did. It hurts Zone 7 now because the money would have been collected and Zone 7 would already have it in the bank. Randy said the City Manager of Livermore is not raising their water rates this year. There will be a pass through and no rate increase. President Greci said he was on the Board when that very high increase was instituted and it was very difficult to deal with the public on that issue. Due diligence was forgotten for too many years. It is the same with water rate increases; you have to do it sooner or later. It was the most emotional meeting he had ever experienced at Zone 7.

Ms. Green also noted that there were no comments from the Home Builders Association who were informed of this rate increase. There was also some discussion on potential impacts on the ISA if no increase was adopted.

Director Quigley moved and Director Figuers seconded the motion for the approval of Resolution No. 11-4046 for amending the basic fee for a standard 5/8-inch meter, as specified in the Ordinance, within the Zone 7 service area to $22,230 and $22,580 with the Dougherty Valley Service Area. There was a roll call vote and it was approved 7-0.

<u>Item 10 – Committees –</u> Delta Committee Minutes

Ms. Duerig commented that the minutes taken at the Delta Committee meeting was a template for future committee meetings where staff is asked to take notes. She asked for feedback from the Board on whether it is a good way to do things or whether the District Secretary should take minutes and make recordings at committee meetings. General Counsel Ren Nosky said that standing committees should keep minutes, there is no set legal requirement either way, just a preference of which format is preferred.

The general consensus was that a recording is kept for the records but when there is no voting, documentation is not necessary. Director Stevens stated that he relies on the recommendations of the Finance Committee for his vote and he thinks those meetings should be documented with recordings and minutes. Director Moore also wanted Finance Committee meetings recorded. For other committees, staff notes are adequate. All Directors agreed by a hand vote.

Item 11 Items for Future Agendas – Directors

Item 14 - Reports - Directors

a. Written reports by Director Quigley
b. Verbal reports

Item 13 – Staff Reports

Staff Reports (Information items. No action was taken.)

a. General Manager's Report
b. Recent Public Outreach Activities & Schools Program Update
c. Legislative Update
d. Status Report on Separation Efforts
e. Update on the Bay-Delta Conservation Planning Effort
f. Quarterly Update of Expansion Fund
g. Verbal Reports

General Manager Jill Duerig got a note from ACWA Outreach people that the ACWA Board adopted some principles related to implementation of the Endangered Species Act and asking member agencies to review those principles and, if appropriate, adopt a resolution. There has not been time to look at it yet, but it will be reviewed to see if it needs to be presented at the November meeting.
Director Quigley shared public outreach on Urban Shield the Del Valle Water Treatment Plant. The theme changes every year and it is a good way to share the expertise and the experience for emergency response to terrorist situations.

Director Palmer had a question on whether the unused portion of the ISA had been terminated. Mr. Yue responded they are still working with Counsel to not trigger "refunding" which has IRS implications and we should know more in the next few weeks.

The Board went into closed session at 8:30 p.m.

Item 14 – CLOSED SESSION

a) 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

b) Government Code Section 549547: Public Employee Performance Evaluation
Title: General Manager

Item 15 – OPEN SESSION AND REPORT OUT OF CLOSED SESSION

Closed session lasted only about ten minutes with nothing to report out.

The meeting was adjourned at 8:55 p.m.