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

REGULAR MEETING

June 15, 2011

DIRECTORS: SANDS FIGUERS
JOHN GRECI
AJ MACHAEVICH
SARAH PALMER
RICHARD QUIGLEY
BILL STEVENS

DIRECTORS ABSENT: DIRECTOR MOORE

ZONE 7 STAFF: JILL DUERIG, GENERAL MANAGER
KURT ARENDS, ASSISTANT GENERAL MANAGER, ENGINEERING
JOHN YUE, ASSISTANT GENERAL MANAGER, FINANCE
TOM HUGHES, ASSISTANT GENERAL MANAGER, PERSONNEL
MARY LIM, ASSOCIATE WATER RESOURCES PLANNER
MONA OLMSTED, ASSOCIATE CIVIL ENGINEER
JUDY RECTOR, BOARD SECRETARY

COUNSEL: REN NOSKY, DOWNEY BRAND

The Board went into closed session at 6:30 p.m.

Item 1 - Closed Session

a) Conference with Legal Counsel--Existing Litigation, Government Code Section 54956.9(a): Petition for Extension of Time, Water Right Permit No. 11319 (Application No. 17002), State Water Resources Control Board.

b) 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.

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

Item 2 - Open Session and Report Out of Closed Session

President Greci announced that Closed Session would continue after the open session.

Item 3 - Call Meeting to Order

President Greci called the open session meeting to order at 7:08 p.m.

Item 4 - Pledge of Allegiance

Item 5 - Citizens Forum

None.

Item 6 – Minutes of the Regular Meeting of May 18, 2011

On a motion by Director Figuers with a second by Director Machaevich, the minutes of the Regular Meeting of May 18, 2011, were approved as presented by a voice vote of 6-0 with Director Moore absent.

Item 7 - Consent Calendar

Director Palmer pulled Item 7(e) for clarification.

Director Palmer moved and Director Figuers seconded the motion to approve Consent Items 7(a), (b), (c), and (d). All five resolutions passed by a roll call vote of 6-0 with Director Moore absent.

Resolution 11-4083 Approved recommending Director Quigley for a second term on ACWA's Region 5 Board and authorization to attend additional regional meetings including reimbursement. (Item 7a)

*Note: Resolution 11-4084 was used in May 2011.

Resolution 11-4085 Approved annual contract with Morrison & Associates for public outreach for an amount not to exceed $179,000. (Item 7b-1, First Resolution)

Resolution 11-4086 Approved annual contract with Davis & Associates for communications support services for an amount not to exceed $70,504. (Item 7b-2, Second Resolution)

Resolution 11-4087 Authorizing out-of-state travel for Tamara Baptista to attend the GFOA Accounting Academy in Chicago, Illinois, August 8-12, 2011. (Item 7c)

Resolution 11-4088 Approved contract with Kenneth R. Henneman for consulting services for the South Bay Aqueduct Improvement & Enlargement Project for an amount not to exceed $88,000. (Item 7d)

Regarding Item 7(e), Arroyo Mocho Mitigation Project, Director Palmer needed clarification on previously used exhibits attached to the agenda item. Kurt Arends, Assistant General Manager of Engineering, explained that there are multiple parts to the item and two issues were rolled into one - which are related and the same project, but different actions – one involving the City of

Livermore and the other, the City of Pleasanton deed restriction to Alameda County Surplus Property. Director Palmer requested that in the future they be marked as "Examples."

A motion to approve the first resolution for Item 7(e) was made by Director Quigley and seconded by Director Machaevich. Resolution 11-4089 was passed by a roll call vote of 6-0 with Director Moore absent.

Resolution 11-4089	Grant access to Alameda County Surplus Property Authority for purposes associated with the mitigation measures defined in the Stoneridge Drive Bridge Mitigation and Monitoring Plan. (Item 7e-1, First Resolution)

A motion to approve the second resolution for Item 7(e) was made by Director Palmer and seconded by Director Quigley. Resolution 11-4090 was passed by a roll call vote of 6-0 with Director Moore absent.

Resolution 11-4090	Approving the deed restriction for Alameda County Surplus Property Authority over real property owned in fee by Zone 7 and that the Board of Supervisors grant said Deed Restriction. (Item 7e-2, Second Resolution)

Item 8 - Staffing Updates

Item 8a - Employee of the Month Recognition

General Manager Jill Duerig announced that Barry Ivy, Facilities Maintenance and Construction Supervisor, was chosen as the April 2011 Employee of the Month. Barry works in the Maintenance Section based at the Del Valle Water Treatment Plant site. According to the recommendation the committee received, Barry has been a great help working with other departments within the Zone. He is complimented as being easy to work with and always willing to help other managers and staff with difficult issues. Barry has the welfare of his staff at the top of his priority list and does his best to move Zone 7 forward in any way he can; plus Barry serves on the Management Advisory Team and is a big proponent of "blue culture."

Item 9 - East Alameda County Conservation Strategy

Mary Lim, Associate Water Resources Planner, brought an East Alameda County Conservation Strategy (EACCS) item to the Board meeting on March 16th. At this Board meeting, she planned a recap of environmental laws that the Conservation Strategy will support, reasons why the Conservation Strategy was developed and key outcomes and benefits of the strategy along with a summary of concerns raised at the March 16th meeting and the responses provided. In addition, she planned to summarize the next steps of the Implementation Committee for the strategy.

Director Figuers interjected that since the Board had a presentation on March 16th, a second presentation was not needed and he moved for approval to accept the East Alameda County Conservation Strategy as guidance for Zone 7's future projects. Director Greci asked if other board members needed a refresher. Director Greci stated that there was an urgency to get the EACCS approved last time but if the Board waits until everything is resolved, it will never be approved. Changes can be made since it is a working document and he suggested approval and deal with the issues later. Director Palmer reiterated that it is an "adaptive management process" so it is something which changes constantly. Director Machaevich felt that many of the items brought to the board three months ago have been satisfied and all Board members are looking forward to putting it to a test. Director Stevens pointed out that this is going to save Zone 7 a lot of money in the long run, a lot of time on construction projects, and make us environmentally sensitive to the needs of the agencies so it is a win-win situation, no loss.

<u>Public comment</u>:

Karen Sweet, former member of the EACCS Steering Committee, expressed her appreciation to the Board for the extra time since March to voice concerns for incorporating more rangeland science background in the document. The decision to delay it for two months turned into three to see if the matter could be dealt with in the Steering Committee. Because of Zone 7's leadership, they were able to receive two letters: one from the EACCS Steering Committee and a combined letter from Fish and Game and Fish and Wildlife Service, both of which recognized that they need and want to work with the California Rangeland Coalition to further enhance the document and make them have something that is more sustainable, more based on rangeland science, and help them address their concerns. During the three months, there was no contact with the EACCS Steering Committee so the letters don't capture the essence of concerns but they appreciate the promise to work with rangeland conservation and the local community to make it a better plan. Fish & Wildlife and Fish & Game have been working with Santa Clara who had to hire a rangeland specialist to fix things that they would like to recognize and deal with in this plan. At the same time, Fish & Wildlife Service is considering a coalition to write a "white paper" that would lay a foundation for habitat conservation plans and strategies and management plans. Ms. Sweet felt that the staff report doesn't remind the Board that this document is for voluntary conservation, not just about permitting requirements for all of the agencies. The implications of that is that if the foundation for rangeland science is flawed, private rangeland science won't have the benefit of consultants to fix some of the scientific issues when they develop a management plan for voluntary conservation. Ms. Sweet requested that the Board ask: 1) should they approve the document now, it be subject to the two letters just distributed as part of the document and later inclusion from the California Rangeland Conservation Rangeland Coalition, and; (2) if the Board allowed more time, the Agricultural Committee of Alameda County, Sheila Barry, the University of California Natural Resources Rangeland Advisor, and Ms. Sweet could bring documents that would allow the Steering Committee to help complete this document.

Director Greci reminded Ms. Sweet that when she was at the Board meeting the last time, it was made very clear that this is and will be an ongoing working document. The Board is ready to vote on it but they will work with her on future changes. Ms. Sweet said she is concerned that the promise to work with them is based on funding and, considering that they were not consulted in the last three months, she has some concerns. President Greci responded that the Board can't promise financing because they would have to vote on it.

Cay Goude, Field Supervisor for Fish and Wildlife Service, and a principal member of the Steering Committee and Ken Squires, Fish and Wildlife Service staff person that went to all the Steering Committee meetings, commended staff for assistance and confirmed that they are currently working on the Biological Opinion trying to address some of the issues to help streamline Zone 7 projects to improve both conservation and Zone 7's ability to proceed. Ms. Goude stressed that it is important to go ahead and approve the plan so they can move forward.

Darrel Sweet commented that from the Agricultural Advisory Committee standpoint, there is a disappointment that they were not more included in the process. He stressed the need to have a plan to recognize the role of private rangeland in conservation and he doesn't feel that is done in Alameda County. A plan is written, money is spent developing it, and then it has to be fixed and he feels it is unfortunate not to get it right instead of getting it done with the hope it gets fixed someday.

Because they were concerns of Mr. Sweet in the last presentation to the Board, President Greci asked him if language about historic grazing in the area had been added in the last three months. Mr. Sweet said there is a commitment in the letter to address that issue. President Greci also reminded him of another concern Mr. Sweet had about incorporating rangeland documents after review and mutual agreement by the regulatory agencies as an appendix to the EACCS.

Brad Olsen, East Bay Regional Park District Environmental Programs Manager, has been participating in EACCS from the beginning and the Park District provided funding to develop the study. He thanked the Zone 7 board, Jill Duerig and Mary Lim for their leadership in moving this process forward. Without Zone 7, this process would have been slower so he hopes the resolution is adopted by the Board.

Steve Stewart, Livermore Planning Division and Steering Committee representative, spoke on behalf of the City of Livermore and strongly encouraged the Board to accept the document as guidance for mitigation and also regional conservation. The project is dynamic and adaptive as stated and new science and techniques are always emerging. He stated that it is the intent of the Steering Committee to capture those techniques as it comes forward and get it in the document as appropriate to capture the most current practices.

General Manager Jill Duerig read into the record a revised resolution for consideration with an added recital to reflect the mission statement:

> "WHEREAS, the process that the Steering Committee has undertaken to develop the Conservation Strategy and to respond to public concerns advances Zone 7's mission statement of: "providing a reliable supply of high quality water and an effective flood control system to the Livermore-Amador Valley…in a fiscally responsible, innovative, proactive, and environmentally sensitive way."

A motion to approve the revised resolution for Item 9 was made by Director Palmer and seconded by Director Quigley. Resolution 11-4091 was passed by a roll call vote of 6-0 with Director Moore absent.

Item 10 - Findings and Recommendations of Zone 7's Asset Management Program Update

Mona Olmsted, Associate Civil Engineer with the Water Supply Section, made a presentation on the findings and recommendations of the Asset Management Program Update. Her slide presentation showed the general service area and the retailers Zone 7 serves, the South Bay Aqueduct, and Lake Del Valle, which supply Zone 7's treatment plants at Del Valle and Patterson Pass, and the remainder of the water system. There are over 40 miles of transmission pipelines, and nine groundwater pumping wells. This is the water infrastructure Zone 7 is responsible for managing in order to provide a reliable supply of drinking water to approximately 220,000 customers in the service area; this is the "heart and arteries of the system." If one or more of Zone 7's facilities go down at the same time, a large portion of our customers will be severely impacted.

The total asset replacement value of Zone 7's water system is currently approximately $423 million dollars. The objective of the Asset Management Program is to proactively manage these assets in a cost effective manner to insure system reliability.

Ms. Olmsted provided pictures of the various facilities to show the condition of some of Zone 7's facilities. She gave details on some projects that have been revamped, plans for other replacement or rehabilitation projects, and the consequences of not being proactive about repairs and the impact of unexpected failure. Many facilities were constructed in the 60's and 70's including many pipelines as well as the Patterson Pass and Del Valle Water Treatment Plants so some assets are reaching the end of their useful life. The rates most water utilities charge are not designed to allow sufficient funding for repair, rehabilitation, or replacement of an aging infrastructure. Asset Management provides staff with the tools to better utilize assets to determine how best to keep the water system functioning smoothly and whether to repair, replace or rehabilitate, or continue regular maintenance on an asset. She emphasized that it helps agencies optimize both their capital expenditures and their operation and maintenance costs. By proactively managing the agency's assets by having sufficient funds, it minimizes the unforeseen or unplanned capital expenditures, so it stabilizes the long-term impacts that capital expenditures can have on water rates. This information can also show customers why capital expenditures are needed.

Ms. Olmsted shared the history of the AMP resulting in the current underfunding of the program. Since 2004 when Zone 7 began developing a formal Asset Management Program (AMP), the agency has added assets to the system which increase the total asset replacement value. Zone 7's retailers agreed and expressed their support for revising the long-term funding methodology for replacement of assets at 100 percent of their original useful life. In both the 2004 report and the 2011 draft report, a ramp up to the annual funding level was recommended.

Ms. Olmsted told the Board that in our CIP, there are three capital programs for funding but the AMP addresses the renewal and replacement component only. Since both renewal/replacement and system-wide improvements are funded by water rates via annual transfers from Operating Fund 52 to Capital Fund 72, the funding analysis encompasses both renewal/replacement and system-wide improvements.

Next Ms. Olmsted discussed how Zone 7 forecasts renewal costs over the next 40 years and the basic concepts for renewal and replacement costs. She discussed the Taste & Odor treatment project at the Plants. The purpose is to meet taste and odor goals for the Water Quality Management Program. The retailers asked Zone 7 to look at debt financing because it is a large project of $36 million dollars. They felt that current ratepayers should not pay for future benefits that they may not receive. However, this project is to begin design in 2017, which is around the time the revised funding level would be achieved. Staff recommends that this project be funded pay-as-you-go rather than burdening our customers with debt. The future system-wide cost estimate includes the other projects in the existing CIP.

A revised AMP funding analysis was based on comments received from retailers to exclude the water conservation programs and the third demineralization groundwater facility. Retailers suggested moving water conservation programs from the CIP to the Operating Budget since costs associated with those programs can fluctuate. It would have an equivalent impact on water rates since those programs would still be funded by Fund 52 – water enterprise fund.

In conclusion, the total asset replacement value for Zone 7's water system has increased by 36 percent to $423 million. The total renewal/replacement and system-wide improvement funding requirement through 2050 is approximately $440 million. The current funding level of $5 million per year is not enough to sustain the program. Ramping up to $11.4 million in FY 2016-17 is the most practical alternative to achieve the funding level. It smoothes out the water rate increases as compared to the other ramp-up alternatives especially given the economic climate. It will achieve the necessary funding level within the next six years in order to be able to manage our water system infrastructure over the long term. It is important to update the AMP on a regular basis in order to re-evaluate the annual funding level with updated information about our assets. Staff recommends that Zone 7 fully fund the renewal/replacement and system-wide improvement program and that it be done with a gradual ramp-up. The recommended funding transfer targets from the Water Enterprise Fund (Fund 52) into the Renewal\Replacement and System-wide Improvements Fund (Fund 72) for the future are as follows:

$6,600,000 in Fiscal Year 2012/2013;
$8,500,000 in Fiscal Year 2013/2014;
$9,500,000 in Fiscal Year 2014/2015; and
$10,500,000 in Fiscal Year 2015/2016

The total annual funding requirement beginning in Fiscal Year 2016/2017 and beyond, is $11,400,000 in 2011 dollars, which will be adjusted for other sources of revenue (e.g., actual interest income and Dougherty Valley Service Area facility use fees), adjusted for inflation based upon the ENR San Francisco Construction Cost Index and adjusted based on future AMP Updates.

Director Figuers asked if there is a policy to monitor our assets and infrastructure so we can do what is recommended in the Asset Management Plan update? Ms. Olmsted responded that the Condition Assessment Program that HDR developed for Zone 7 is based on the schedule of the asset management database but would also be performed on a more frequent basis as part of Maintenance staff's work with the preventative maintenance program so it would be scaled-down from condition assessment to condition inspections and then that could be escalated to an assessment with Engineering staff support if needed.

Director Quigley said he believes in managing assets because it is the core of what we do to deliver water to the public from lots of different places. What he feels is missing and needs to be in the next AMP update is real property in terms of land, plants, easements, buildings and structures, fleets, administrative assets and things that might help us go "green" on vehicles.

Director Machaevich stated that, although it seems like a large amount of money for our assets, percentage-wise it is only a little over 1 percent to pay for protection of our assets, and it is only going to get more expensive, so ramping up to over 2 percent seems like the responsible way to deal with this situation.

Director Palmer noted that Zone 7 is not going to be able to rely on the State if there is an emergency situation because the money isn't there so Zone 7 has to responsibly and sustainably take care of ourselves.

President Greci made a final comment about preventative maintenance on mechanical equipment in order to save money. Those preventative maintenance repairs are being disregarded and we are going on a run-to-fail mode but our mission statement is for reliable and quality water. Our reliability and quality are related to the AMP. It is imperative that we plan ahead. We cannot afford the down time in our facilities simply because we failed to plan ahead for emergencies related to worn-out equipment.

Public Comment:

Dan Martin, City of Pleasanton Utilities Superintendent, acknowledged that the level of cooperation that Zone 7 has exercised is at the highest level that they have ever had. The retailers worked closely and were involved in the process of the AMP. At the funding stage, the integration of the replacement with the system-wide improvements, the reason it is an issue is not because the system-wide improvements are not important or viable, it is because of the timing, the economy, and the situation we are in**.** The directive to him from Pleasanton's City Council is absolutely nothing but the most critical components, you have to need it, and you have to prove it. He asked that the Board separate the Renewal & Replacement portion from the System-Wide Improvements then proceed with the repair and replacement and reserve judgment on the timing of the system-wide improvements.

Director Figuers agreed with what Mr. Martin said but asked what the City of Pleasanton would say if we didn't repair something and a major water treatment plant went down for six months so some repairs cannot be delayed.

Director Machaevich said that is why he feels the inspection programs are crucial because if it may allow slight delays that buy some time.

Director Stevens confirmed that if the Asset Management Plan shows a replacement scheduled, we decide if it will be replaced then, not just follow the schedule. General Manager Jill Duerig agreed and explained that we will always see things through our condition monitoring that indicates that we can prolong the life because we have been maintaining it well or in contrast, it is failing earlier than expected. Director Stevens confirmed to Mr. Martin that the Cities can believe that Zone 7 will only replace those things that have to be replaced.

Randy Werner, City of Livermore, was given direction to tell the Board that the City of Livermore is in favor of what Zone 7 is proposing for renewal/replacement. It is not fair to ratepayers to make them pay for system-wide improvements that are due in 40 years. City of Livermore recommended in April that the third demineralization project be deleted and they are happy that their suggestions have been heard. It is important that the same amount be taken today from ratepayers because those people may never see those improvements. He also stated that when the first AMP came out, all four retailers were unanimously against it when Zone 7 said we have to go from \$5 million/year to \$10 million/year rate increase; they were okay with \$5 million to \$6 million, etc. If we had waited until 2005 and increased the rates by \$1 million each year, today we would be at \$11 million and we would be where we need to be and not asking for more.

Director Figuers responded that historically the rates have not risen slowly and decades went by with the same rates and that is why we are in the fix we are in. Mr. Werner and Director Figuers had a brief discussion about the \$830 connection fee that was not increased for years by past Zone 7 boards.

Director Machaevich moved and Director Quigley seconded a motion to approve the resolution. Resolution 11-4091 was passed by a roll call vote of 6-0 with Director Moore absent.

Item 11 - Committees - None.

Item 12 - Items for Future Agendas – Directors

Director Stevens expressed an interest in having a meeting or board presentation on Item 14(g), Zone 7's Retirement Plan, and Other Post-Employment Benefits. President Greci suggested that it could be a topic at an off-site meeting or the Board Workshop because the topic may not be of interest to the general public.

Item 13 - Reports - Directors

a. Written report by Director Quigley
b. Verbal reports

Director Figuers passed out copies of the typhoid graph of 1907 deaths from drinking public water as a follow-up to his comments at last month's board meeting. He also had copies of a Civil Engineer News Salary Survey, which showed a listing of private versus public pay scales for civil engineers, without benefits included. Even without benefits, he said that the public sector is 10 percent higher than the private sector throughout the United States and, with benefits, pay is increased by 20 to 30 percent.

Director Quigley discussed the intake facilities that he saw on the Region 5 tour at Freeport and Sacramento Municipal. He stated that they are worth seeing and even looking at online.

Director Machaevich joined an organized walk through Doolan Canyon, which increased his perception of conservation and the importance of looking at land and the effects of run-off.

Item 14 - Staff Reports (Information items.)

a. General Manager's Report
b. Recent & Upcoming Public Outreach Activities
c. Legislative Update
d. Status Report on Separation Efforts
e. 2010 Water Quality Management Program Annual Report
f. Annual Report for the Groundwater Management Program for 2010 Water Year
g. Zone 7's Retirement Plan and Other Post-Employment Benefits
h. Verbal Reports

Director Quigley asked about job skill needs while going forward with separation efforts and assessments in a transition phase. General Manager Jill Duerig responded that regardless of separation, Zone 7 is doing the succession planning as part of our strategic priorities. Staff is looking at workforce planning and training and other things needed for the future health of this organization, but she emphasized that it needs to be done whether Zone 7 separates or not.

Director Palmer requested an update of the separation timeline. Ms. Duerig said the consultant had already been requested to put it together and she expects to see it soon.

Adjourned to closed session at 8:45 p.m.

Item 15 - Open Session and Report Out of Closed Session

There was nothing to report out of closed session.

The meeting was adjourned at 9:50 p.m.