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

REGULAR MEETING
July 15, 2009

President Palmer called the regular meeting to order at 7:00 p.m. The following were present:

DIRECTORS:	SANDY FIGUERS JOHN GRECI STEVE KALTHOFF CHRISTOPHER MOORE SARAH PALMER DICK 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 TOM HUGHES, HUMAN RESOURCES MANAGER MARY LIM, ASSOCIATE PLANNER STEVE ELLIS, ASSISTANT ENGINEER JOHN KOLTZ, SENIOR ENGINEER BARBARA MORSE, BOARD SECRETARY

Item 3—Reorganization of the Board

The regular July meeting is when the Zone 7 Board traditionally reorganizes. President Palmer called for nominations for board president.

Director Stevens nominated Director Quigley for president. The nomination was seconded by Director Greci. By a voice vote, Director Quigley was unanimously elected Board President for FY 2009-2010.

Director Stevens nominated Director Figuers for vice-president. The nomination was seconded by President-Elect Quigley.

President Palmer nominated Director Greci for vice-president. The nomination was seconded by Director Kalthoff.

President Palmer asked each of the two nominees to say a few words about why they should be elected.

Director Figuers stated that the vice-president really has no power. It is a stepping stone to the presidency. He felt the main role of the vice-president was to lend encouragement and support for the direction of the board. He noted that his personal philosophy was to reserve his energy for items that can be accomplished. He added he had no patience with “frou frou” items that cost money.

Director Greci stated he had been on the board for 15 years, and during that time, the board has tackled some big issues. He noted that he is currently in the fourth year of his fourth term on the board with one more year to go, and he intended to run again next year when his term is up. During his tenure on the board he had served as president twice and as vice-president twice. During most of his time on the board he had a full time job but is now retired. He did not want to take anything away from Director Figuers but Director Greci indicated that he is willing to serve as vice-president if the rest of the board wants him in that role.

Director Figuers added that he, too, had served as board president twice and as vice-president twice during his previous tenure on the board from 1988 to 2000. Including previous time spent on the board, he was in his fourteenth year as a Zone 7 Director.

It was suggested, and agreed to by the directors, that a coin toss be used to choose the vice-president because both candidates are qualified.

Director Moore flipped the coin and Director Greci called "heads." It was heads.

Director Figuers withdrew his nomination for vice-president.

By unanimous voice vote the Board elected Director Greci as Vice-President for FY 2009-2010.

President-Elect Quigley thanked the Board for electing him President and stated that he would work hard to live up to expectations.

The gavel was turned over to President Quigley, and the meeting continued.

Before continuing with the agenda, President Quigley requested that Directors let him know their committee preferences by the next meeting. For now, the committee structure would remain the same but he has some ideas on ways to streamline the committees.

Item 4—Citizens Forum

Mr. Abbas Masjedi, City of Pleasanton, spoke regarding an upcoming event at the City of Pleasanton Operation Services Center. On Saturday, July 18, from 10 a.m. to 2 p.m., there will be a free Solar Cities Workshop and Environmental Fair. Information will be available to homeowners on solar technology for residential use. Featured at the fair will be a presentation by PG&E, as well as displays and exhibits on water conservation, urban runoff and other environmental topics, as well as residential solar energy. The fair is free and is sponsored by a joint project of the cities of Livermore, Pleasanton and Dublin.

Item 5—Minutes of Regular Meeting of June 17, 2009

On a motion by Director Palmer with second by Director Stevens, the minutes of the Regular Meeting of June 17, 2009 were approved as presented. Directors Kalthoff and Moore abstained.

Item 6 —Consent Calendar

On a motion by Director Figuers with second by Director Moore, the Board approved Consent Item 5a. The following resolution was approved:

Resolution No. 10-3320	Adopting an Identity Theft Prevention Program in conformity with regulations issued by the Federal Trade Commission. (Item 6a)

<u>Item 7—Staffing Update</u>—None this month

<u>Item 8—East Alameda County Conservation Strategy—Project Update</u>

The Board heard a presentation by Ms. Mary Lim, Associate Planner, on the East Alameda County Conservation Strategy.

- Since November 2007, Zone 7 has been part of the East Alameda County Conservation Strategy (EACCS) Steering Committee which has been developing the Conservation Strategy with the assistance of ICF Jones & Stokes. The Conservation Strategy will provide guidelines for mitigation practices and overall conservation in east Alameda County. It is expected that one of the outcomes of the Conservation Strategy will be to streamline environmental documentation and permitting for future projects.

- Funding for development of the Conservation Strategy comes from a combination of local agency cost-share and a CalFed grant. The local agency cost-share is $38,125 per agency for the 13 participants. Zone 7 is currently the coordinator for development of the Conservation Strategy and is the administrator of the ICF Jones & Stokes contract.

- The collaborative effort produced immediate results by enhancing Zone 7's relationships with the resource agencies, US Fish and Wildlife Service, California Department of Fish and Game, and the California Regional Water Quality Control Board for this region.

- The Conservation Strategy will serve as the basis for a programmatic biological opinion for the study area.

- Benefits to Zone 7:

    - Enhanced relationships with the resource agencies.
    - Facilitates future CEQA and environmental permitting for CIP projects, including expansion of the water system and implementation of the SMMP.
    - Time saved by incorporation of biological resources and mitigation guidance into future CEQA documents.
    - Cost-benefit
        - Zone 7's cost-share for EACCS: $38,125
        - Current 10-year water expansion CIP: $509 million
        - SMMP: $726 million

Questions/comments from the Board:

Mitigation ratios: Refers to amount of mitigation that must be made for each unit of a species impacted. For example, if the mitigation ratio for red legged frogs is 3 to 1, then each acre of frog habitat encountered would be mitigated three times by providing three acres of mitigation habitat. Ms. Duerig added that based on past experience, development of mitigation ratios is a time consuming and costly undertaking. The Conservation Strategy will save time by pre-establishing ratios.

In response to a request from Director Figuers for specific examples of how the EACCS process has enhanced Zone 7's relationship with other governmental agencies, Ms. Duerig stated that in the recent past the regulatory agencies have shown no sense of urgency when requested to provide information, process permits, etc. The same problems were encountered in our dealings regarding the Altamont Water Treatment Plant and Pipeline Project as well as the Chain of Lakes where it took months for responses. However, during the EACCS process all of the players are at the table and in one room at least once a month, and it's much easier to get answers.

Director Quigley had questions regarding how the ratios for species were set. As an example he cited the American badger which has not been seen in Eastern Alameda County for some time.

Ms. Duerig responded that if there have been no sightings, then the procedure is to look for habitat that would support that animal. Sometimes the mitigation is to maintain or provide habitat because the animal could come back.

There were no further questions.

Item 9—Mocho Groundwater Demineralization Plant Project Status Report

The Board heard a presentation by Mr. Steve Ellis, Assistant Engineer, on the Mocho Groundwater Demineralization Plant Project. Mr. Ellis provided background information and then showed photographs which depicted construction of the various elements of the project

- Construction Contract Awarded to GSE Construction in May 2007 for $23,989,680.
- Change orders approved to date totaling $1,261,726.
- Construction started in July 2007, with final completion scheduled by July 2009.
- Construction highlights to date:
    - All boring and jacking operations are complete.
    - Pipeline installations between Mocho 1, Mocho 3 & Mocho 4 are completed.
    - Major work at Mocho 3 site is complete.
    - RO Building work has been completed.
    - RO system has been installed.
    - Contractor is performing functional testing.
    - Plant is expected to be online by the second week of July 2009.
    - Camp Parks Pipeline Lining & Connections work has been completed. This pipeline will be used for RO concentrate conveyance.
    - Chemicals for plant start up have been delivered.
    - Plant Testing and Start-up
        - Testing of wiring and equipment continues.
        - SCADA programming & integration into the existing SCADA network is on-going.
        - Training of Zone 7 staff on the various pieces of equipment and processes is continuing.
- As of the end of May we are approximately 96% through the contract time and approximately 97% of the contract amount has been paid.

Mr. Ellis then answered questions from the Board regarding specific details of the project.

Director Stevens thanked Mr. Ellis for the presentation saying that it is good to see where the money goes.

In response to a question from Director Quigley regarding a formal ribbon cutting ceremony for the project, Mr. Ellis responded that an open house is scheduled for September 23. The decision was made to wait until all of the testing has been completed.

There were no further questions.

Item 10—Groundwater Influence on Delivered Water Quality Study

The Board heard a presentation by Mr. John Koltz, Senior Engineer, on Groundwater Influence on Delivered Water Quality Study which analyzes the impact of Zone 7's wellfields on delivered water quality at retailer turnouts. The study is a requirement of the Well Master Plan Final Environmental Impact Report and must be completed prior to construction of any wells after the Chain of Lakes Wells 1 & 2 are in-service.

- The draft Study was completed and submitted to the Retailers on Jan. 12, 2009. No comments were received. A supplemental informational meeting was held with Pleasanton on May 29, 2009.
- The Study found that the relative degree and extent of the Chain of Lakes wellfield's groundwater influence zone was not significantly greater than any other wellfield's influence zone.
- The Study is deemed new information as defined under CEQA Guidelines section 15162 and shall be considered by the Zone 7 Board prior to any action approving future wells under the Well Master Plan Program.

Mr. Koltz stated that the recommendation is for the Board to adopt the draft resolution, accepting the Study and finding no new significant environmental effects and no substantial increase in previously identified significant effects and therefore, per CEQA Guidelines, a subsequent EIR is not required.

Board comments/questions:

Director Figuers stated that he has been aware for decades of the complaints from the west side of the Valley over poor water quality when the pumps are turned on in the summer but the diagram presented tonight is the best graphic he's seen which explains why that happens.

Director Greci commented that he was happy to see that no further EIRs are necessary. Also, none of the levels on the graph indicate over 400/ppm on the Hardness which is good.

In response to a question from Director Stevens on whether this is similar to a Negative Declaration, Ms. Naamani responded no, this is a mitigation measure identified in the Well Master Plan EIR. We had to commission this report and then analyze its findings. And pursuant to the CEQA guidelines when you do have new or subsequent information you go through the process of analyzing whether the original EIR missed something because of the new information or whether the original underlying analysis of existing environmental impacts is still valid. If there are no new effects, you don't have to take any further steps.

Mr. Abbas Masjedi, City of Pleasanton, thanked Zone 7 for working with the City staff on this. He stated that the City staff has issues with some of the findings in the report; in particular the City believes that the Hardness values were underestimated. Also, most of the scenarios show significant impacts to City of Pleasanton turnouts. It is planned to take this study to the City

Council for their review and to receive direction on how to proceed. Once we receive input from the Council, a letter will be sent to Zone.

Discussion took place on possible reasons for the discrepancies between the data Zone 7 used for the study and City of Pleasanton data. Ultimately, it was decided that it would not hurt for this item to be delayed to allow for more time for the two staffs to see if the discrepancies in the numbers can be resolved.

Director Moore moved to table this item for one month. Director Stevens seconded, and the motion passed by a unanimous voice vote.

Item 11—Developer Request to Defer Collection of Water Connection and Development Impact Fees

The Board heard a presentation from Mr. Yue on deferral of the collection of water connection and development impact fees. This is a follow up to direction received after an informational report at the May 20, 2009 meeting on the development community's request for Zone 7 to consider deferral of development fees.

This same information was presented to the Finance Committee on July 2, 2009.

Highlights of Mr. Yue's presentation on the impact of a water connection fee deferral program on the Zone's Expansion Fund (73).

Background on the Expansion Fund (73):

- Funding comes mainly from water connection fees collected on new development.
- Revenue to this fund peaked in FY 04/05 at $42.2 million; however, since FY 04/05 revenue has been steadily decreasing with revenues of $11.3 million estimated for FY 08/09.
- Expenditures in this fund are expected to grow due to increasing costs of the SBA Enlargement, Chain of Lakes Master Plan and construction start of the Altamont Treatment Plant.
- The Expansion Fund (73) is expected to have a negative fund balance beginning in FY 10/11 because of decreased revenue.
- Long and short term funding gaps are forecast for the Expansion Fund (73) and are dependent upon how quickly development rebounds and how much our project expenditures will be in the coming years.
- Funding gap projections have been exacerbated by the recessionary economy.
- Zone 7 negotiated a $60 million Installment Sales Agreement (ISA) with Wells Fargo Bank in 2007. The ISA functions like a line of credit which could be borrowed upon to cover the short term funding gap in Fund 73.
- Options for covering the longer term funding gaps include:
    - Increasing the property tax override.
    - Deferral of discretionary project expenditures.
    - Increase water rates.
    - Borrowing.

- These issues will be discussed more fully in the coming months as the Board sets water rates for CY 2010.

After the background, Mr. Yue moved on to an analysis of the impacts to the cash flow in the Expansion Fund (73) if connection fees were to be deferred.

Assumptions of a deferral program:

- Two-year program: 7/1/09 to 6/30/11.
- Housing starts of 471 in FY 09/10 and 481 in FY 10/11.
- 10% of connection fees would be collected in the first year; 90% in the second year.
- All deferred fees would come due on the sunset date of 6/30/11.
- Absolute guarantee from builders at the time of permit issuance that Zone 7 will receive fee at the time of sale or the sunset date for the then-applicable connection fee. (If the deferral time period included an increase in the connection fee, the higher fee would be due.)

Findings:

- A comparison of net revenue (cash flow projections of cash in – cash out) with and without a deferral program shows that a deferral program would not negatively impact the funding gap in the Expansion Fund (73).

Pros of a fee deferral program:

- Slightly favorable impact on cash flow in the Expansion Fund (73).
- May provide stimulus to local economy and promote employment.

Cons:

- Risk that adopting deferral program may nullify the ISA.
  - Obligation to provide updates and cash flow projections to the bank.
  - Obligation not to reduce rates, fees and charges unless the net revenues resulting from the reduction are sufficient to meet payment obligations.
  - Deferral program could violate Zone 7's pledge of revenue.

- Projected development activity cannot be verified.

Committee Recommendation:

- After discussion on July 2, the Finance Committee members concurred with staff's recommendation that due to the importance of a valid ISA for the agency to meet funding needs, staff, out of an abundance of caution and prudence, recommends not to adopt a fee deferral program, and if conditions warrant, to re-consider this request in four to six months' time. The Committee directed staff to make the recommendation to the Board.

Tonight's Recommendation:

- While the numbers favor a deferral program and the stimulus it would have on local housing development, that is outweighed by the importance of having a valid ISA for the agency to use to cover funding gaps in the Expansion Fund. Therefore, staff recommends that a fee deferral program not be adopted.

Board comments/questions:

Director Figuers stated that it appeared that a deferral program would have minimal impact on fee revenue but the greater concern is a potential negative impact to the ISA. He requested more information on how a fee deferral program could be construed as a threat to the ISA.

Ms. Naamani responded that under the terms of the ISA, Zone 7 pledged connection fee revenue as security. A deferral program could be interpreted by the bank as compromising that pledge, and the ISA could potentially be nullified. The terms of the ISA represent a very attractive deal, and we don't want to do anything that would jeopardize it. Because we want to draw on the ISA fairly soon, we don't want to get into a debate with the bank about whether or not a fee deferral program violates the terms of the ISA. Further, we have been advised by our financial consultant and bond counsel to take a very conservative approach and not to even open the door and ask the bank about whether this would violate the terms of the ISA.

Director Stevens stated that he thought the original reason the Board approved the ISA was to cover funding gaps which occur during construction of the Altamont WTP and Pipeline projects. Now it appears that there are plans to use it differently from the original Board authorization. He also noted that if we don't need the ISA, then the problem goes away.

Mr. Yue responded that we need the ISA because projected development revenues are flat.

Ms. Duerig added that the Altamont Pipeline Livermore Reach is nearly completed, and we are able to draw $30 million from the ISA to pay for that portion of the Altamont project. Staff will be coming to the Board and to the Finance Committee before making any withdrawals.

In response to a question from Director Greci on fees associated with the ISA, it was noted that there is a $30,000 annual fee associated with maintaining the ISA even if no money is withdrawn.

Director Kalthoff stated that the Finance Committee was sympathetic to the fee deferral request but did not want to jeopardize the ISA.

Director Moore stated that this is a question of risk to the organization. The Committee was sympathetic to the request. However, the risk to the organization vs. the benefit was not there.

President Quigley asked for comments from the public. There were no comments at this time.

Director Figuers moved to approve the staff recommendation to decline to establish a fee deferral program. The motion was seconded by Director Kalthoff and passed by a vote of 6-1-0. Director Stevens voted no.

Item 12—Committees

a. Finance Committee of July 2, 2009—Minutes available.

The Committee met to hear reports on 1) the proposed increase to the cost of water obtained from Byron Bethany Irrigation District, and 2) the request to defer collection of Water Connection and Development Impact Fees.

Item 13—Items for Future Agendas—Directors

None.

Item 14—Reports—Directors

a. Written report by President Quigley
b. Verbal reports

In an addition to his written report, President Quigley stated that he had helped staff the Clean Water booth at the Alameda County Fair.

Director Palmer called attention to a new Bay Delta Conservation Plan brochure that is out.

Item 15—Staff Reports (Information items. No action taken.)

a. General Manager's Report
b. Recent & Upcoming Public Outreach Activities
c. State Legislative Update

Item 15d—Verbal Reports

Mr. Wong advised that Water Facilities Supervisor Rich Gould recently accepted the AWWA's Director's Award on behalf of Zone 7. This award is given by the American Water Works Association, and this is the tenth consecutive year Zone 7 has received it. We are very proud to receive this award and want to emphasize it is a team effort on the part of Zone 7 Operations, Engineering, Maintenance and Water Quality Sections.

Attention was also called to the July 2008 issue of *Opflow*, a publication of the American Water Works Association, which contained a short article in the "Intake" section called "Powdered Activated Carbon (PAC)," by Zone 7 Water Plant Operator Hiren Patel.

# # # # #

The Board then took a short break before reconvening in Closed Session at 9:00 p.m.

Item 16—CLOSED SESSION

a) Conference with Legal Counsel –Significant exposure to litigation pursuant to Subdivision (b) of Government Code Section 54956.9: 3 cases

b) Conference with Labor Negotiators:
Agency Negotiator: G.F Duerig
Employee Organization: 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 17—Open Session and Report Out of Closed Session

President Quigley announced that the Board gave authorization to the General Manager to seek some financial data from ACERA in preparation for strategic planning and budgeting efforts.

Item 18—Upcoming Board Schedule

(All meeting locations are 100 North Canyons Parkway, Livermore, unless otherwise noted)

a) Board Strategic Planning Workshop: August 18, 2009 (start time tbd)
Location: Wente Vineyards, 5050 Arroyo Road, Livermore, CA 94550
b) Regular Board Meeting: August 19, 2009, 7:00 p.m.
c) Joint Liaison Committee Meeting with DSRSD: August 25, 2009, 4:30 p.m.
d) Finance Committee Meeting: August 27, 2009, 3:00 p.m.

There was no further business, and the meeting was adjourned at approximately 10:00 p.m.