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

REGULAR MEETING

September 21, 2011

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

<u>DIRECTORS</u>: SANDS FIGUERS
JOHN GRECI
AJ MACHAEVICH
CHRISTOPHER MOORE
SARAH PALMER
RICHARD QUIGLEY
BILL STEVENS

<u>DIRECTORS ABSENT</u>: NONE

<u>ZONE 7 STAFF</u>: JILL DUERIG, GENERAL MANAGER
KURT ARENDS, ASSISTANT GENERAL MANAGER, ENGINEERING
JOHN YUE, ASSISTANT GENERAL MANAGER, FINANCE
TAMARA BAPTISTA, FINANCIAL AND SYSTEMS SERVICES MANAGER
JAVIA GREEN, STAFF ANALYST, FINANCE
AMPARO FLORES, ASSOCIATE CIVIL ENGINEER
TOM ROOZE, ASSOCIATE GEOLOGIST
JUDY RECTOR, BOARD SECRETARY

COUNSEL: REN NOSKY, DOWNEY BRAND

<u>Item 3 - Citizens Forum</u>

Larry and Joyce Lascurain, 3205 Omega Circle, Pleasanton, told the Board they have had what they believe are calcium deposits in their water. They brought in a plastic glass with white deposits on it that was an example of dishes put through their dishwasher on Labor Day weekend. They are concerned about what they are drinking and eating when using water in their house. Dan Martin, City of Pleasanton, was present and said that the City of Pleasanton has had some complaints regarding dishes washed by dishwashers and their Water Quality Technician i working on the complaints.

After looking closer at the sample glass that was provided, Director Palmer asked them if they noticed it more on plastic dishes than glass and reassured them that the deposits are not unhealthy.

Director Greci suggested that for peace of mind they leave the glass and the City of Pleasanton will test it to let them know exactly what it is on the plastic glass.

Sandy Yamaoda, 3405 Byron Court, Pleasanton, attended the board meeting and voiced her disapproval regarding a proposed increase in water rates.

General Manager Jill Duerig asked if people with comments about the water rates can wait for the discussion on water rates later in the agenda. It would be more helpful to have those public comments at the time water rates are being discussed.

Item 4 - Minutes of the Regular Meeting of August 17, 2011, and Special Meeting of August 31, 2011

Director Quigley revised his comments in the August 17, 2011, minutes to read:

The water source is a blend through a feeder and a tunnel from the Colorado River, a significant influence and will continue to be, through the California Aqueduct and delivered through the San Diego canal.

Carol Mahoney and Mike Wallace were added as attendees at the Special Meeting/Board workshop on August 31, 2011.

On a motion by Director Machaevich and seconded by Director Quigley, the minutes of the Regular Board meeting of August 17, 2011, were approved and the Special Board Workshop of August 31, 2011, were approved by a voice vote of 7-0.

Ms. Duerig recommended that Item 11 be heard before Item 10 because it is helpful for staff to talk about the CIP program prior to talking about the connection fee program.

Item 5 - Consent Calendar

President Figuers told the Board there is no requirement that a roll call vote be taken on items that have money in them, it is just a tradition at Zone 7. If the Board wishes, they can use a non-roll call vote for money (voice vote) but he feels a roll call vote puts everyone on record, it is a tradition, and it forces a Director to focus on the reason for their vote. The resolutions were approved by a voice vote of 7-0.

Resolution 11-4112	Approved Director Quigley's request to substitute at the off-site ACWA Board Meeting held in Chico, California, for Region 5 board member, Vice-Chair Katy Foulkes. (Item 5a)
Resolution 11-4113	Approved authorizing the General Manager to execute the Memorandum of Understanding and affirm Zone 7's participation in BAFPAA and financial contributions for annual dues, projects, studies, and/or grants for amounts not to exceed $25,000. (Item 5b)
Resolution 11-4114	Approved the reimbursement of actual and necessary expenses associated with John Gonzales and Paul Zullo's attendance at AWWA's 2011 Fall Conference in Reno, Nevada, October 17-20, 2011. (Item 5c)
Resolution 11-4115	Approved authorizing the General Manager to negotiate and execute an agreement with Vulcan Materials Company for the discharge of groundwater into the Chain of Lakes. (Item 5d)

Resolution 11-4116	Approved authorizing the General Manager to negotiate and execute Amendment 4 to the Agreement for Dry Year Water Purchase Associated with Yuba Accord (A08-98-CAL). (Item 5e)
Resolution 11-4117	Approved the reimbursement of actual and necessary expenses associated with Robyn Navarra's out-of-state travel and attendance at the WaterSmart Innovation 2011 Conference in Las Vegas, Nevada, October 4-7, 2011. (Item 5f)

Item 6 - Staffing Updates

Item 6 (a) - Congratulations to Retiree

General Manager Jill Duerig congratulated Vince Cirelli on his retirement from Zone 7 after 21 years of service. He has been a stellar Water Plant Operator and one of those people who have just been great to work with, very knowledgeable, a hard worker, diligent, and an excellent mentor to our newer and younger Operators. Director Palmer moved and Director Quigley seconded the motion honoring Vince for his years of service. Resolution No. 11-4118 was approved by the Board with a voice vote of 7-0.

Item 6 (b) – New Employee Introduction

Aaron Webster was introduced to the Board. He joined Zone 7 on August 22, 2011 as an Instrument Technician working for the Maintenance Section out at Del Valle Water Treatment Plant and reporting to Tim Brown. Aaron has almost 10 years of technician experience including installation, maintenance, and repair of instruments and control equipment, repair and upgrade of a recycled water distribution control system, and maintenance of various large machines. Aaron worked for the City of San Jose as an Instrumentation Technician in their Water Pollution Control Plant. He holds an Associate's degree in Electrical Power Engineering from Mid-State Technical College.

Item 6 (c) - Employee of the Month Recognition

Amparo Flores, Associate Civil Engineer, was re-introduced to the Board. Ms. Duerig said how lucky Zone 7 is because Amparo had worked for Zone 7 prior to her resignation to go to Cambridge to get her Ph.D. but then she returned to Zone 7. She has a tremendous, upbeat attitude and helps everybody. She just completed Zone 7's Urban Water Management Plan which was the first accepted in the State and it was completed using in-house expertise.

Item 7 – Project Authorization for Groundwater/Salt Management Plan Updates and Approval of Amendment 1 to the Contract with HydroMetrics Water Resources, Inc.

Assistant General Manager, Engineering, Kurt Arends explained to the Board that since Zone 7's currently approved SMP does not address nutrient management and the CEC monitoring, an update of the SMP is necessary to satisfy SWRCB's Recycled Water Policy requirements. The SMP Update will also provide an opportunity to re-evaluate the salt management strategies included in 2004 SMP and perform more rigorous analysis of the basin implications of the water supply portfolios identified in Zone 7's 2011 Water Supply Evaluation. Because the SMP was incorporated into the GWMP, staff recommends updating the GWMP and SMP as a single effort. The Update effort is anticipated to take approximately 2.5 years and include stakeholder involvement and the appropriate CEQA actions.

The update is estimated to cost approximately $1.45 million, including an estimated $500,000 for CEQA analysis assuming the need for preparation of an EIR. The majority of the project will be completed by in-house staff; however, the GW model improvement effort will require consultant expertise and additional computer-processing capabilities, estimated to be approximately $200,000. HydroMetrics Water Resources, Inc. (HydroMetrics) was retained earlier to assist staff in planning the groundwater model improvements.

This effort was not anticipated for this fiscal year but is required to be done by 2014. Staff wants to get started now because it will be a significant effort and require a lot of input with stakeholders. Because it was not budgeted for this fiscal year, staff is requesting an appropriation of $400,000 in this year’s budget to get started. Staff recommends amending the current contract by $200,000 to complete the model and work with HydroMetrics’ staff.

Director Palmer asked if the $200,000 is spread out until February 2014? Mr. Arends responded that the majority of the modeling will happen up front. This contract is to develop the model to better capture the technical issues with the groundwater basin and expand its capabilities.

Director Stevens asked why we need an EIR? Mr. Arends explained that it depends upon whether we have to implement different projects or take action, then an impact analysis of those actions would be required.

Ms. Duerig said it is not unlike the CEQA analysis we have done for other master plans such as the Stream Management Master Plan or the Well Master Plan. We don’t know yet whether a full EIR is needed because there are different levels of analyzing CEQA and if there is no impact, then only a negative declaration is needed. If there are significant impacts that cannot be mitigated, then you might need a mitigated negative declaration or an EIR.

Director Quigley stated why he is in favor of voting for it: it will impact benefits for expanding the use of recycled water; satisfy requirements of the state water recycling policy, which is important to do; and it will calibrate the flow model and incorporate stream and arroyo flow.

Director Palmer stated that with $200,000 you can buy a lot of software. Mr. Arends responded that it is not just purchasing software but actually the expertise to take data and input into new software and calibrate it. It takes a lot of computing power so it will be done on HydroMetrics’ larger computer systems.

Director Quigley asked Project Manager Tom Rooze if the groundwater model we are using now dates back to 1974? Mr. Rooze confirmed that it was built a long time ago.

Director Palmer asked if they will piggyback on any GAMA (Groundwater Ambient Monitoring & Assessment Program) information? Mr. Rooze responded that he will be working with the Department of Water Resources and use whatever information they have. Director Palmer remarked that they have done a lot with groundwater modeling, age dating, and salt so there is a lot of information already available.

Director Quigley moved and Director Moore seconded the motion authorizing the project and an additional appropriation of $400,000 for FY 11/12 along with an amendment to the contract for HydroMetrics for a not-to-exceed amount of $200,000 to perform the remaining tasks within the scope of work. Resolution 11-4119 was approved by a roll call vote of 6-0 with Director Palmer abstaining.

Item 8. Preliminary Treated Water Rate for 2012

John Yue, Assistant General Manager, Finance, introduced the preliminary discussion for the 2012 treated water rates. The item will be continued to October 19, 2011, for a final decision and adoption. The treated water rate development actually started at the June 15th board meeting when the Asset Management Program update was adopted. That determined the amount of contributions from water rates for the renewal, replacement and system-wide improvements of the existing infrastructure.

Staff met with Retailers on August 22, to give them a preview of the treated water rates, Capital Improvement Program (CIP) for FY 2012-2013 and water connection fee. The Finance Committee met on August 29 to discuss the same items and the discussion was continued until the September 13 Finance Committee meeting where the Committee moved to bring to the full Board the discussion on the recommendation of a 5% increase for the 2012 treated water rate along with the other items. Staff also received two phone calls from citizens regarding water rates. The first one called to express her concern on the effects of increasing prices, especially for seniors. She commented that there should be a break given to the seniors trying to make it on their own. The second caller commented on the less water you consume, the more you pay and the general inefficiencies of public agencies. He was against rate increases in general. Staff responded with return calls to both.

Tamara Baptista, Financial & Systems Services Manager, gave a brief presentation on the treated water rate for 2012. Two major items she discussed were the Asset Management Program (AMP) and reserves. A good asset management plan is good for overall asset management planning. It stabilizes the long-term impact on water rates and increases system reliability. The funding requirement for AMP comes from both the expansion fund, Water Enterprise (Fund 73) and Fund 72 which is split between two programs, renewal/replacement and system-wide improvements. The next AMP update is in five years in 2016.

Ms. Baptista showed a chart of the annual use of reserves. Zone 7 revenues should cover the operating expenses and the transfer (annual contribution to the renewal/replacement and system-wide improvements fund from the water enterprise fund), so in years where we don’t generate enough revenue to cover our expenses and the transfer, we have to use reserves.

Zone 7 reduced our operating expenses using cost-savings initiatives. For the current year the transfer is estimated to be $5 million, $400,000 less than the previous year’s transfer. The AMP funding level is $11.4 million but we don’t reach that until FY 16/17 so we are not at current funding levels. Funding levels are already lower than the 2004 AMP study and also for 2011.

We have had deficits totaling $4.3 million where revenues do not cover operating expenses and the required transfer to the capital program. All alternatives continue to use reserves to keep water rates low.

The Finance Committee asked, "What if we have a 0% rate increase?" There will be a reduced level of service; there will be a reduced reliability of infrastructure; and we will deplete all of our reserves below the Board-designated reserve policy unless we have drastic, double-digit rate increases in the near future.

The impact of deferring some of our capital asset repairs are: asset failures can result in service disruption, create unsafe conditions for employees and the general public, and be costly.

The Finance Committee then recommended a 5% increase resulting in a new rate of $945/acre foot. The current year for 2011 is $900/acre foot so it is a $45 increase per year for our wholesale rate which translates into $1.88 per month per customer if 100% passed on through our Retailers to end-users.

Director Moore said that during the Finance Committee meetings, the discussion centered on making sure that the Tri-Valley has a reliable, safe and dependable water supply, but in order to maintain that system you have to fund it. We have funded it enough in the past so that we can anticipate and make sure repairs and maintenance are funded at an appropriate level. We're also reducing our costs. Five percent is the rock bottom while keeping us comfortable with our reserves. He asked Ms. Baptista to explain the reserves.

In March of 2005, the Board adopted a reserve policy and Zone 7 has Board-designated reserves. Staff makes sure our budgets maintain those reserve levels:

- Emergency Operating Reserves (our Water Enterprise O&M) which is 20% of our operating expenses.
- Rate Stabilization Reserves in case of a major drought or disaster and to help mitigate any rate fluctuations, currently set at $5 million.
- Unrestricted Reserves.

Director Moore continued that the Retailers had asked why all of those reserves were needed and do you need to have them at that high of a level? It is about Board policy but sooner or later you are going to run out of reserves if you continue to use them but we have a good reserve policy with a number of components. After the second Finance Committee meeting, he was clearer about what reserves Zone 7 has, in what account, and for what reasons and that is why he was supportive of the 5% increase.

Director Quigley noted the $1.88 per month per customer for a 5% rate increase but he asked Ms. Baptista how much a 7.5% rate increase would cost? She replied $2.83 per month if passed on 100% through the Retailers to the citizens.

Director Stevens commented to the public that the Asset Management Plan was adopted in 2004 because we have water treatment plants, pipelines, vehicles, and buildings but never budgeted for their maintenance in the past – they break and we fix it. It is a good management policy to maintain your assets. In 2004 we were told that we needed to budget $10 million per year for managing assets. We have been under-funding our Asset Management Plan because every year the Retailers say we do not need that much in our AMP so we re-did the study this year and the new annual target is $11.4 million. If you keep pushing this forward, your kids are going to pay more than we are. We are trying to be proactive and do the right thing. The public needs to understand that the Asset Management Plan and Reserves are the driving forces in rate increases and if you don't do anything and there is a huge pipeline failure, rates could go up 20%. We are trying to plan ahead and reduce costs while costs are increasing.

Director Machaevich said the Finance Committee took a lot of time to go through the information but from a utilities' point of view, it is reasonable to recommend 5% to protect the infrastructure and if a serious disaster happens, we will have most of the funds to fix it. Zone 7 likes to live within their means and not borrow and the Board is trying to do it the correct way instead of borrowing to make ends meet and pay interest on those monies. He hopes the Board has heard what the Finance Committee has recommended and will come to the same realization that they cannot do a 0% raise because it puts Zone 7 in a risky situation down the road and we need to protect the infrastructure and make sure our costs are met.

Director Palmer stressed the importance of infrastructure protection as a national problem but the Board is trying to protect Zone 7's and make sure that they take into account having to replace much of the infrastructure in the foreseeable future.

Director Greci stated that he has sat in on 18 years of rate increases and discussions. The Board has to plan for system degradation and for unforeseen problems. We try to be as fiscally conservative as we can because we represent the public. We try to do it in a manner so we can give you a reliable source of water and a product that is safe. Eighty percent of our water comes from the Delta but we don't have control over it. The public doesn't understand infrastructure, maintenance, delivery responsibilities, and everything that goes with making that water dependable. This Board has been very proactive and have a close working relationship with the Retailers who understand more than anybody how we work and how we do it. We are a wholesaler, we pass it on to the Retailers, and they supply you but there is a big infrastructure for us to get it to them. Your Retailers have the same responsibilities as us as far as their delivery systems. Their maintenance is also part of their rates because if they had an outage and no way to fix it, the public would not have any water until someone could come up with the money. We are trying to educate the public on how our business works, the rationale for doing our increases, and what we represent to this community. We are also ratepayers in this Valley and pay the same rates you do.

President Figuers opened it up for public comments.

Dan Martin, City of Pleasanton Utilities Superintendent, was representing Pleasanton as an official representative. He wants to be consistent with Pleasanton's position regarding rate increases and again say that they do not support a rate increase at this time. He suggested another way for the Board to look at the Asset Management Plan. The AMP is a plan and the goal is to perform these maintenance repairs. Pleasanton's position is that right now we have to look at the projects we would like to do, the money we have, and prioritize. Currently the AMP is not funded at a zero level so if we don't do a rate increase, it is not as if important repair and replacement projects are not going to get done; but don't talk about adding more projects to those that need to be done. The characteristic that the AMP is a single, monolithic project that if not fully funded, the whole thing will fall apart is misleading to the public. Zone 7 has over 200,000 people who are your customers but they don't receive a bill from Zone 7 and don't think of Zone 7 that way. They interact with the Retailers as the supplier. As much as he has tried to educate the public, they don't understand that when things happen at Zone 7 and he has to pass the cost on to them, that is not within his control They are looking at the City of Pleasanton when that bill comes and that charge is more. They call him and tell him how difficult things are for them right now and how hard it is to meet their bills every month. He wants the Board to know that even though those calls don't come to Zone 7, those people are real and he cannot express how significant even a small rate change can be. Once those rate increases reach people, there is an impact and people are hurting. Right now is not the time for those increases. He wants to make sure Pleasanton delivers a consistent message regarding that to this Board.

Director Palmer asked when would be the time? Mr. Martin responded that some economic indicators are very encouraging such as they are seeing an increase in commercial occupancy. Folks are getting used to the new norm that water is a commodity and the price does go up but right now the sensitivity is high. If he has to explain to them why there is an increase and he does not feel that it is appropriate, how does he do that?

Director Quigley mentioned the costs that Zone 7 has beyond their control including water delivery and chemical costs and that many things have been done to reduce costs, for instance, the Delta component to begin to fix our supply, the enlargement of the South Bay Aqueduct to make it more safe, secure and robust, and the new filtration systems that we put in. He added that many of the capital projects in the CIP have been delayed significantly so this Board has done a lot of work to keep costs down in addition to adopting a pay-as-you-go program. We want to make sure we get the right amount to cover our costs and, in the past several years, we have been deficit spending and holding rates lower than they really should have been.

Darren Greenwood, Assistant Public Works Director for the City of Livermore and current Chair of the Tri-Valley Retailers Group, focused his comments on three main areas. The rate increases done last year, this year and next year are unlike any done in the past because of economic conditions. He wants to be clear about what the Retailers say about Zone 7's cost controls. None of their comments are directed at operational costs. It is not about deferring projects as those have been done appropriately. Most comments on the AMP now and in the past four years have to do with planned system-wide improvement projects. There are two things: the renewal/replacement which the Retailers have been supportive of. They want Zone 7 to keep their assets maintained and be able to supply the Retailers with water. What they are uncomfortable with are the system-wide improvement projects; $2.5 million a year is set aside for potential improvements that might or might not come. Retailers have consistently commented that they object to having this money in there for projects that are not yet identified. The Retailers are not talking about dipping into Zone 7 operational reserves or the rate stabilization fund, but in addition there is $7.5 million above and beyond policy targets for reserves sitting in the bank. That is the money the Retailers feel is available to spend now to put off a potential rate increase and the Retailers are saying because times are tough, it is a good time to use that money rather than have a rate increase. The objection is that Zone 7 is still proposing a rate increase even with reserves at the policy level.

The 5% increase does spend down about $2.5 million of the undesignated fund balance but still leaves over $5.6 million that could be used to cut the rate increase with over $11.5 million in all the designated reserves that are at policy levels. The Retailers emphasis on minimizing or eliminating a 2012 rate increase is intended to provide immediate rate relief in hard economic times and to allow time for Zone 7 and the Retailers to review and reconfirm the need for CIP projects. The Retailers are not in favor of this big amount of money being set aside for unknown projects and the money being set aside for one known project, Taste & Odor Improvements, is causing them the most concern. When the Retailers approved putting it on the CIP list, it was in different economic times for a project they no longer feel they can support. One of the reasons we would like to cut the rates this year is to go back and look at that project and confirm that it is still viable given the economy. If it is, we need to find a way to pay for it; if it is not, it comes off the CIP list and results in a big change to that AMP transfer, in our opinion. The Retailers are not comfortable with Zone 7 trying to accumulate funds for the Taste & Odor project until we have a chance to revisit that economic viability because it is such a big expense. Continuing to adopt rate increases to accumulate money for projects that are years off without going back and confirming that they are viable is irresponsible.

Brent Cromar, Pleasanton resident, sells wastewater and water treatment equipment. He suggested that if you have a fixed cost, you need to sell more of your product and market it. Bring people into the Valley so they can use more of the product and buy it cheaper. He is suggesting lowering rates for a short period of time to allow additional volume. From a marketing point of view, reduce the cost and attract businesses and people into this area. He feels there is no excuse for being penalized when you are cutting back and charged more because we are using less. This is not a good year for a rate increase.

John Freeman, California Water Service Company, said that Cal Water has always supported Zone 7 in the renewal/replacement program as Mr. Greenwood said. But the system-wide improvement portion of the rate increase is of concern. He suggests the Board look at what they want as the minimum for their reserves and that should be maintained; anything above that should be given back to the rate payers. Cal Water is a different model from the Cities because they are regulated by the Public Utilities Commission and would never be allowed to have reserves in their coffers.

Angelina Summers, Pleasanton resident, said that they have been asked to conserve water, they have, and Dublin has all these new houses. Why is she conserving so they can live there? She feels that Dublin, because they are using a lot of water, should be charged a higher rate than Livermore and Pleasanton.

Director Greci commented on the 20% conservation goal by 2020 that is a State requirement. It does not come from Zone 7. The State mandate has to be met. We are obligated to encourage our users to decrease their demand by 20% by 2020.

Director Moore commented on businesses coming to the Valley and needing a reliable source of water but a reliable water supply comes at a cost. Last year the Finance Committee recommended a 0% increase and the overall Board voted for 2.5%

Director Stevens suggested a Board meeting on reserves in two weeks and President Figuers and the remainder of the Board agreed.

Item 9. Preliminary Untreated Water Rate for 2012

John Yue stated that the preliminary untreated water rate for 2012 is calculated separately from the treated water rate. The current rate is $97/acre foot. The recommended rate is $92/acre foot, a 5% decrease. Ms. Baptista noted that Zone 7 anticipates providing around 4,000 acre feet of water for the untreated water customers which is roughly 10% of our treated water. The untreated water rate is comprised of various sources of untreated water from the Byron-Bethany Irrigation District (BBID) water, Del Valle Water Rights, Yuba Dry Year Water Purchase Program, Bay-Delta related costs and an administrative fee based on actual staff costs.

Since 1962, Zone 7 has delivered untreated water via the South Bay Aqueduct (SBA) to untreated water customers for irrigation purposes. The rate is set based on the cost of acquiring the untreated water, Bay-Delta related costs and an administrative fee. The administrative fee calculation is based on the actual time staff spends on the untreated water program and the actual water usage. A program developed by staff tracks and monitors water usage by individual contractors. This program report is part of the Annual Water Operations Report.

Director Moore moved and Director Palmer seconded a motion approving the recommendation to continue this action to the October 19th Board meeting. President Figuers confirmed that this is the direction given to staff.

> *NOTE: Item 11 was heard prior to Item 10 per the Board's agreement at the beginning of the meeting.*

<u>Item 11. Draft Fiscal Year 2012/13 Capital Improvement Program:</u>
- **10-Year Water System Plan**
- **5-Year Flood Protection Plan**

John Yue introduced Item 11, the Capital Improvement Program for FY 2012/13. Mr. Yue reminded the Board that this item is for information and discussion.

JaVia Green, Staff Analyst, gave a presentation including the background of the program and the preliminary findings. Staff prepared the Draft Fiscal Year (FY) 2012/13 Capital Improvement Program (CIP) document which identifies the capital projects and programs needed to carry out the goals and policy objectives of the agency. The CIP describes the projects, costs, schedules, and priorities for the next five and ten year periods, starting with FY 12/13 for the Flood Protection and Water Systems, respectively.

Staff met with the Retailers on August 22, 2011 to provide an overview of the draft CIP. In addition, the Draft CIP Executive Summary was presented to the Zone 7 Finance Committee on August 29, 2011. At the subsequent September 13, 2011 Zone 7 Finance Committee meeting, the committee recommended bringing forward the CIP for discussion at the September 21, 2011 Board meeting and for adoption at the October 19, 2011 meeting.

<u>Public Comment:</u>

Randy Werner, City of Livermore, commented about using money for the Ozone project. He emphasized that all Retailers know the benefits of ozone but they do not want to see the money spent on the project now.

In response, President Figuers requested that Retailers provide a semi-official list of projects that Retailers recommend delaying three to five years or longer and projects that Retailers recommend cancelling because Retailers don't want them. Zone 7 is building a lot of them because Retailers have requested them for years; if no longer requesting them, let the Board know, so that Zone 7 staff can analyze and make appropriate recommendations to the Board.

Darren Greenwood, City of Livermore, said they could come to the next meeting with a list of projects but asked for a delay with the ozone project because they are not ready to make a decision to not do the project but want to take another look at it. There are lots of benefits to ozone but is it worth $54 million?

President Figuers responded that a delay may mean it may not be there when Retailers want it.

Director Stevens suggested sticking to the Board practice of considering what Zone 7 staff recommends for the CIP.

Item 10. 2011 Municipal & Industrial Connection Fee Program Update

Amparo Flores, Associate Civil Engineer, Integrated Planning Group, gave information on the connection fee update which is done to incorporate the latest planning efforts. The 2011 water supply evaluation completed earlier this year played a critical role in developing our water system expansion program which is designed to meet the needs of our future customers. The connection fee program funds the water expansion fee program. The planning horizon for this update is from FY 12/13 to FY 39/40 to cover the projected build out between 2035 and 2040.

Staff has determined that the Water System Expansion Program funding requirements are in-line with the existing connection fee. At the October 2011 Board meeting, staff will therefore recommend an inflationary adjustment to the current fees based on the change in the ENR CCI from September 2010 to September 2011 (3.2%). The resulting fees would be $22,930 per 5/8-inch connection (Dwelling Unit Equivalent or DUE) within Zone 7's Alameda County service area and $21,230 for Dougherty Valley to be effective January 1, 2012.

Staff also evaluated the Dougherty Valley Facility Use Fee. In accordance with the methodology set forth in the agreement between Zone 7 and Dublin San Ramon Services District, the fee is adjusted every five years for inflation based on the change in the ENR CCI between 1997 and the present. Staff recommends increasing the fee to $2,895 per DUE, a 17.7% increase from the previous fee.

The next steps are to finalize the draft connection fee program update and bring forward the recommended fees at the October Board meeting. They would become effective January 2012, if adopted.

President Figuers asked what happens if build out is shifted 10 years? Ms. Flores responded that Zone 7 will build projects only when needed or projects will be deferred. Since those projects may involve years of lead time to plan, this will be looked at annually. She said Retailers did not appear to be concerned because this is an inflation adjustment but they did have questions about future outlook and an updated engineering analysis which is part of the current evaluation.

Item 12 – Committees – Minutes of Finance Committee Meetings for August 29, 2011 and September 13, 2011

Item 13 - Items for Future Agendas – Directors

President Figuers asked staff to schedule a Special Board Meeting to explain Zone 7's reserves.

Item 14 - Reports - Directors

Director Palmer reported that she attended ACWA's 2011 Regulatory Summit meeting in Pasadena last month. She has lots of notes about maximum contaminant levels and toxicity levels and what is recommended. This is the first time they have had an ACWA Regulatory Summit. There were good panelists that covered topics like carbon capture and storage, detection limits on various toxic chemicals, water quality compliance, chromium 6 and public relations messages about water quality. The highlight was speaker William Ascher, author of a book Environmental Policy, Reimagining the Boundaries of Science and Politics. Since one of our problems in this country is not trusting science, he talks about the public perception of science, what is good science and bad science, how people use it and misuse it, and some of the problems in terms of missing variables. Director Palmer highly recommends the book and noted that the key points are:

> The authors divide the knowledge process into three functions – generation, transmission, and use – and explore the key obstacles to incorporating knowledge into the making of environmental policy. Using case studies and integrating a broad literature on science, politics, and policy, they examine the ignorance or distortion of policy-relevant knowledge, the overemphasis of particular concerns and the neglect of others, and the marginalization of certain voices. The book's analysis will be valuable to scientists who want to make their work more accessible and useful for environmental policy and to policymakers who want their decisions to be informed by science but have had difficulty finding scientific knowledge that is useful or timely.

Director Quigley participated in a coastal clean-up at Lake Del Valle with about 70 young Interactors (Rotary's youth division) from six high schools in the Valley. He helped them understand where some of the Del Valle water comes from. He also attended an East Bay Regional event with their fish tank. He then attended a Region 5 ACWA meeting in San Luis Obispo. The group talked with the owner of a winery about farming run-off and environmental concerns of agriculture. Key points of the presentation include a warning that agriculture is the least regulated in terms of run-off and that may be changing. People are worried about urban stormwater and water quality impacts. Recent changes in the Judge Wanger decision on the Delta may help us in our water supply in the near term.

Item 15 – 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. Verbal Reports

Ms. Duerig said the recent decision by Judge Wanger is similar to what he did with the smelt opinion. He remanded the biological opinion to the National Marine Fisheries Services to try again because the science wasn't sound enough to support the limits they had put on pumping to theoretically help salmon.

Randy Werner, City of Livermore, asked about an item in the General Manager's Report under Finance & Administration:

- The Power and Water Resources Pooling Authority (PWRPA) continues to evaluate the viability and economics of serving various Zone 7 sites that meet their criteria. PG&E has indicated that PWRPA can serve the five most likely sites pending an interim services agreement. PWRPA has agreed to submit a draft of the evaluation to staff soon.

Ms. Duerig explained that the Power and Water Resources Pooling Authority is a group of agencies who generate power through the dams they operate, irrigation districts, and solar power. Sometimes they have excess power that they want to sell back to the grid. They pool their resources so they can sell between each other and they split the difference of what they get from PG&E over what somebody else would pay at the full PG&E rate so both parties have the benefits. They formed a group eight to ten years ago to pool their power and sell it back and forth and realized that there are sometimes when, if it is based on hydroelectric power from dams and it has been a wet year, they all have excess power at the same time and if they are just selling it between themselves, they don't have enough. Zone 7 has been trying to get them to sell us cheap power and now Zone 7 is a test case for them. We are still negotiating details but it looks like it might save us money so we are moving forward with it.

The Board went into closed session at 10:00 p.m.

Item 16 – CLOSED SESSION

a) Conference with Legal Counsel--Existing Litigation pursuant to Subdivision (a) of Government Code Section 54956.9: 1 case

Solano County Water Agency, et al., v. State of California Department of Water Resources, et al.;
Sacramento County Superior Court Case No. 34-2088-00016338CU-BC-GDS

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.

17. Open Session and Report Out of Closed Session

President Figuers reported out of closed session that the board had unanimously authorized the General Manager to increase the spending limit for existing litigation in Solano County Water Agency, et al., v. State of California Department of Water Resources, et al. (Sacramento County Superior Court Case No. 34-2088-00016338CU-BC-GDS), by $25,000 for a new total of $50,000.

The meeting was adjourned at 10:20 p.m.