

**SCOTT'S VALLEY WATER DISTRICT
MINUTES OF THE
REGULAR BOARD MEETING
OCTOBER 8, 2009**

**SCOTT'S VALLEY WATER DISTRICT
BOARD ROOM, 2 CIVIC CENTER DRIVE
SCOTT'S VALLEY, CALIFORNIA**

1. CONVENE MEETING

Item 1.1 President Perri called the meeting to order at 7:00 p.m.

ROLL CALL

Present: Directors Kassis, Miller, Hodgin, Kannegaard and Perri

Absent: Directors None

Item 1.2 Pledge of Allegiance and Invocation

Director Kassis led the Pledge of Allegiance and Invocation.

Item 1.3 Closed Session Report:

Attorney Bosso reported that the Board in closed session on a real property issue. Direction was given to real property negotiator on how to proceed.

Item 1.4 Approval of Minutes from the Special and Regular Board Meetings of September 10, 2009.

Director Hodgin moved, seconded by Director Miller, to approve minutes from the Special and Regular Board Meetings of September 10, 2009, as presented. Motion carried unanimously.

ADDITIONS/DELETIONS TO THE REGULAR AGENDA: None

PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA:

Anthony Cefaloni addressed the Board regarding a billing error on his account; he said he has come into the SVWD office and talked to General Manager McNiesh and his bill has been adjusted already; however, he still owes about \$4,500; his house was built in 2007 and the billing has been going on since he bought and moved in; he requested of the Board that he be completely absolved of the outstanding balance on his account; he said he takes water conservation seriously, but thinks the District should take responsibility under the circumstances.

General Manager McNiesh explained that the error with Mr. Cefaloni's account was different than those where the electronic meter reading device was setting the decimal point in the wrong place; in this case, the electronic device was actually reading correctly, but staff thought it wasn't and incorrectly adjusted the reading when no adjustment should have been made; the end result was the same, however; the account was under-billed consistently as stated by Mr. Cefaloni.

Director Hodgkin said that Mr. Cefaloni attended the Business Administration Committee meeting; the committee discussed this issue with Mr. Cefaloni and several payment options were considered.

Kenn Ellis addressed the Board regarding the billing error on his account; he stated that he built his house five years ago; said he would and could have adjusted lifestyle habits and usage if he had known earlier what his actual bill was; he now owes \$2,680 and wants to work out something reasonable with the Board; he said he also had a leak at one point but didn't apply for a leak adjustment because, with the billing error, the cost didn't appear very high.

William Henderson, representing Bay Tree Association, addressed the Board regarding his adjusted bill for \$54,000; he said his problem is that he cannot go back and charge tenants who are no longer living there; his attorney has written to the District regarding this issue.

Attorney Bosso said District staff forwarded him the letter from Mr. Henderson's attorney; he has responded with a letter back to Mr. Henderson's attorney; the code quoted by Mr. Henderson's attorney has to do with the Public Utilities Commission; instead, the California Water Code is the relevant statutory authority for county water districts such as SVWD.

2. PUBLIC HEARING AND PRESENTATIONS:

- Item 2.1 Presentation of Financial Statements for Years Ending June 30, 2009 and 2008 by Robert Smiley of Berger/Lewis Accountancy Corporation and Consideration of Approval by Board of Directors.

Robert Smiley reported on changes to this year's statements related to bond-restricted funds determined to have been spent prior to June 30th and changed requirements for reporting post-employment health benefits; he pointed out a few items of additional information not part of audit procedures; presented an overview including: assets and liabilities; debt service and coverage ratio, which is strong; detail of line items at back of financial statements; cash flow; capital assets; PERS retirement system; budget comparisons.

Director Miller asked about handling of impact fees, which are required by statute to be kept separate from other income. Accounting Manager Catalano explained that as money comes in from impact fees it goes

against the liability that the District has already incurred; therefore there are no unspent funds to go into a separate account.

Mr. Smiley advised that the District could hold fees paid in a separate account on the books and then quarterly make a journal entry to transfer these against the expenses incurred. Attorney Bosso said he would review Director's Miller question further.

Director Miller moved, seconded by Director Hodgins, to approve the financial statements, as presented. Motion carried unanimously.

3. CONSENT AGENDA:

Item 3.1 Approve Progress Payment No. 2 in Amount of \$300,525 to McGuire and Hester for Construction Work on Recycled Water Distribution System Extension Projects

Director Miller moved, seconded by Director Kassis, to approve the Consent Agenda, as presented. Motion carried unanimously.

4. ITEMS REMOVED FROM CONSENT AGENDA: None

5. DIRECTOR'S AGENDA ITEMS

Item 5.1 Individual Director Reports

Director Hodgins reported that he attended an ACWA board meeting in late September in the Owens Valley; once a year the ACWA board meets in a water district in a different part of the state; this year it was Owens Valley. Director Hodgins also reported on the ACWA Region 5 meeting in Walnut Creek on October 1st and 2nd, which was about groundwater solutions and low quality water coming out of Sacramento River; next ACWA Board meeting will be at the ACWA conference in San Diego in early December; advised further that Director Kassis also attended the Region 5 meeting in Walnut Creek.

Item 5.2 ACWA Update: See Item 5.1

Item 5.3 Anticipated Directors' Expenses: None

Item 5.4 Board Priority List: No update

6. COMMITTEE REPORTS:

Item 6.1 Business Administration Committee

6.1.1 Customer Billing Corrections

General Manager McNiesh addressed the Board regarding unfairness of applying high-tier rates for customers who were unaware of using that much water; suggested several options for Board's consideration;

recommended collecting for full consumption but using the lowest tier rate in effect at the time instead of the normal tiered rate structure; this approach would have limited effect on small accounts, but larger accounts could see a reduction of up to two-thirds.

Director Hodgkin advised that this approach would not be fair to other customers who have been paying for full price for their water use.

After discussion by the Board regarding pros and cons, Director Perri moved to approve options 2, 3, and 6, on page 6.1-2 of the agenda packet, noting that option 3 provided for an extension in time of previously authorized option 1. Motion seconded by Director Kannegaard. Motion carried with Directors Kannegaard, Kassis, and Perri voting “aye” and Directors Hodgkin and Miller voting “no”.

6.1.2 Possible Water Rate Adjustments

General Manager McNiesh reported explaining two options recommended by staff for consideration; two options are very similar; bullet points on page 6.1-3 of agenda packet describe main points; in the 1st year, rates would not change but tiers would be made smaller so customers would advance to higher rate with less usage; meter service charge would remain unchanged; customers using small amounts of water would see little or no rate change; for others, the more they used, the more they would be impacted; a flat rate is proposed for commercial and industrial users who want to take advantage of it and can demonstrate they have taken all feasible water conservation measures; relative to option 1, option 2 would shift rates slightly more on to high water users.

Director Hodgkin moved, seconded by Director Miller, to direct staff to draft an ordinance based on option 2. Motion carried unanimously.

Item 6.2 Water Resources Committee

6.2.1 Water Use Efficiency Grant Project

General Manager McNiesh reported on Urban Drought Assistance grant awarded in December 2008; state funding had been frozen but has now been released; scope of work calls for leak detection audit of the District’s distribution system and accuracy testing of system meters; grant also reimburses District for landscape rebate costs; purchase of conservation tracking software is also provided for, but staff is reviewing whether this still seems best use of the money.

6.2.2 Drought Response Measures

General Manager McNiesh said the District has received several phone calls asking if drought response measures would stay in place all year; committee discussed having them stay in place until the end of October.

Director Perri moved, seconded by Director Hodgin, that as of October 31st drought response measures be suspended. Motion carried unanimously.

General Manager McNiesh asked and received clarification that the suspension of drought response measures did not apply to the requirement to use recycled water for bulk use for all applications that do not require potable water.

6.2.3 District Policy Regarding Grey Water Use

General Manager McNiesh reported that County Environmental Health contacted the District requesting to be kept informed of what the District does regarding grey water. Simple grey water systems consisting of a washing machine and one sink can be done without a permit; County is trying to promote a registry rather than permit; for example, registry would enable County to help people out with periodic advisories.

6.2.4 Gateway South Supplemental Environmental Impact Report

General Manager McNiesh distributed copies to the Board of a draft comment letter on this project; comment period ends November 4th.

Director Miller suggested adding a point that if an assessment district is created to bring recycled water to the Gateway South area, then the retail store should be required to be a part of it. Mr. McNiesh stated he would add this point to the letter.

Item 6.3 Facilities Engineering Committee

6.3.1 Water Replenishment Impact Fee Study

General Manager McNiesh reported working with consultant Bartle Wells Associates to set new fees based on actual and projected costs; distributed copies of summary of proposed fee changes; Committee discussed putting this through at the same timeline as the water rates changes, even though this fee change is not subject to Proposition 218 requirements. After discussion, the Board determined it preferable to have separate ordinances.

Director Hodgin moved, seconded by Director Kannegaard, to direct staff to prepare an ordinance to put into effect impact fees as proposed by Bartle Wells, to be brought back to the Board for final approval. Motion carried, with Director Kassis abstaining. Director Miller said he voted yes based on his understanding that staff will provide further information on project costs and impact fee fund management.

6.3.2 Pasatiempo Recycled Water Exchange Project

General Manager McNiesh reported that the Santa Cruz City water rights issue that has appeared a hurdle may not be something SVWD has

to deal with after all; Santa Cruz has reviewed its water rights filings and determined it appears to have ability to exchange water to Scotts Valley and other County areas; the District's water rights attorney has reviewed the Santa Cruz filings and concurs with this recent interpretation. General Manager McNiesh said Kennedy/Jenks Consultants is moving ahead with the recently approved engineering feasibility study; the consultant's report should be ready for Board review in January or February.

6.3.3 Local Groundwater Assistance Grant Project to Implement Butano Formation Monitoring Project

General Manager McNiesh reported that previously frozen grant funding for this project had also been released; next step is locating and securing monitor well sites.

7. STAFF REPORTS

Item 7.1 Accounting/Customer Service Reports

Accounting Manager Catalano reported customer service reports have been updated; with Board acceptance of financials, he can begin to catch up on monthly budget to actual comparisons and other routine monthly reports.

Item 7.2 Operational Reports

Assistant General Manager/Operations Manager O'Brien reported that recycled main extensions project is 99% complete; walk through to create punch list for Victor Square was last week; hopes to do final walk through first of next week.

Item 7.3 General Manager's Report

General Manager McNiesh advised that Mr. Bendori has decided to include his device in the California Urban Water Conservation Council (CUWCC) study for toilet inserts. Current preferred date is November 4 at 4:00 pm for the Santa Margarita Groundwater Basin Advisory Committee; Board members concurred that date is acceptable.

Director Miller asked about progress on agreement with City regarding recycled water. General Manager McNiesh said discussions had stalled temporarily; he would try to re-engage the process.

Item 7.4 Attorney's Report:

Attorney Bosso said he had nothing to report.

8. DIRECTOR'S COMMENTS ON ITEMS NOT ON THE AGENDA:

Director Kannegaard addressed the Board regarding Scotts Valley City Council Member Donna Lind coming to the August Board meeting and advising that the City chose not to support Senate Bill 211, which would establish a countywide open space district; he said he would like the District to inform the City whether or not the District supports their position opposing this bill.

General Manager McNiesh said this item could be put on a future agenda for discussion or on a committee agenda. President Perri asked that an Executive Committee meeting be scheduled before next Board meeting.

9. MISCELLANEOUS CORRESPONDENCE: None.

10. CLOSED SESSION:

Before going into Closed Session, Attorney Bosso advised that the Board would consider taking action after the Closed Session as described at agenda item 11.1. The Board went in to Closed Session at 9:55 p.m. with General Manager McNiesh and Mr. Bosso in attendance. Mr. McNiesh was excused from Closed Session at 10:15 p.m.

Item 10.1 Pursuant to Government Code Section 54956.8
Conference with Real Property Negotiator
Property: Portion of Lehigh Hanson Quarry (APN 067-021-21)
Agency Negotiator: General Manager
Negotiating Parties: SVWD, Kaiser Sand & Gravel Company
Under Negotiation: Price and Terms of Payment

Item 10.2 Pursuant to Government Code 54957
Public Employment Performance Evaluation
General Manager

11. CLOSED SESSION REPORT AND ACTIONS ON MATTER(S) CONSIDERED IN CLOSED SESSION

Item 11.1 Consider Approval of Revised Memorandum of Understanding re Position of District General Manager

The Board reconvened in Open Session at 10:20 p.m. with General Manager McNiesh and Attorney Bosso in attendance.

Director Hodgkin moved approval, per Mr. McNiesh's request, to amend his employment agreement to add two days of annual management leave and "buy back" ten days of accumulated sick leave in exchange for an additional five days of management leave to be used within twelve months. Motion was seconded by Director Miller and carried unanimously.

12. ADJOURNMENT

Director Kassis moved, seconded by Director Miller, to adjourn at 10:25 p.m. Motion carried unanimously.

Respectfully submitted,

/s/ Deborah L. Hazen
Deborah L. Hazen, District Secretary

Approved: November 12, 2009