

**SCOTTS VALLEY WATER DISTRICT
MINUTES OF THE
REGULAR BOARD MEETING
NOVEMBER 8, 2007**

**SCOTTS VALLEY WATER DISTRICT
BOARD ROOM, 2 CIVIC CENTER DRIVE
SCOTTS VALLEY, CALIFORNIA**

1. CONVENE MEETING

Item 1.1 President Hodgin called the meeting to order at 7:03 p.m.

Item 1.2 ROLL CALL

Present: Directors Kassis, Ferri, Kannegaard, Hober and Hodgin

Absent: None

Item 1.3 Pledge of Allegiance and Invocation

Director Kassis led Pledge of Allegiance the Invocation.

Item 1.4 Closed Session Report from Regular Board Meeting of October 11, 2007

Attorney Bosso advised that the Board discussed the General Manager's annual performance review; there was no action taken in closed session.

Item 1.5 Approval of Minutes of the Regular Board Meeting of October 11, 2007

Director Hober moved, seconded by Director Kannegaard, to approve minutes of the Regular Board Meeting of October 11, 2007, as presented. Motion carried unanimously.

ADDITIONS/DELETIONS TO THE REGULAR AGENDA: None

PUBLIC COMMENTS ON ITEMS ON THE AGENDA: None

PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA:

Joe Miller addressed the Board regarding lack of action on water issues on the part of local government including the District; he read a letter for the record to be publicized regarding maintaining a sustainable supply of water, impacts of development on recharge, lack of planning for future, and need to set standards for recharge development review.

President Hodgkin advised other Directors and meeting attendees that Mr. Miller is a former District Board member and former Scotts Valley mayor.

Director Perri said he agreed with Mr. Miller's comments.

2. CONSIDERATION OF FINANCIAL STATEMENTS AND BUDGET:

- Item 2.1 Presentation of Audited Financial Statements for Fiscal Year Ended June 30, 2007 (Financial Statements) and Related Documents by Auditor Robert Smiley of Berger/Lewis Accountancy Corporation.

Mr. Robert Smiley of Berger/Lewis Accountancy Corp reported; this year his firm had identified no significant additional opportunities for strengthening financial reporting; four points had been identified last year; last year's recommendations regarding bank reconciliation process and frequent use of miscellaneous operating expense account had been implemented; last year's recommendations regarding capital asset policy and governance and accountability were in progress. Mr. Smiley explained major sections of the financial statements and went over key items; compared current year to prior year; noted non-operating revenue showed a large change due to increased property tax revenue; mentioned impact of jump in PERS rate several years ago; discussed Note 11, page 23, regarding GASB Statement No. 45 which requires future accounting for and reporting of post employment benefit obligations; noted detailed budget and actual figures on pages 25-28; referenced discussion on page 29 regarding District insurance coverage; answered questions of Board members.

General Manager McNiesh said audit report has been reviewed by the Business Administration Committee and thanked Mr. Smiley for his firm's work on it; President Hodgkin thanked Mr. Smiley.

- Item 2.2 Consider Acceptance of Audited Financial Statements

Director Hober moved, seconded by Director Kassis, to accept audited financial statements as presented. Motion carried unanimously.

- Item 2.3 Staff Presentation of Draft 2007-08 Operating and Maintenance Budget and 2007-12 Capital Facilities Budget (Draft Budget)

General Manager McNiesh noted the draft budget distributed prior to the meeting did not include pie charts and other graphics illustrating budgeted expenses; these graphics would be included tonight as part of the budget presentation.

General Manager McNiesh showed power point presentation which covered anticipated revenues; breakdown of anticipated customer water sales; revenue assumptions; cash budget summary; breakdown of budgeted operations and maintenance costs by category; labor cost breakdown; operations and maintenance budget expense assumptions;

capital facilities budget; description of capital facilities projects; summary of financial model projections, including impact on District reserves and ability to meet debt coverage ratio required by bond covenants.

Item 2.4 Consider Approval of Draft Budget

Director Hober moved, seconded by Director Perri, to approve draft budget. Motion carried unanimously.

Director Kannegaard thanked General Manager McNiesh and Assistant General Manager O'Brien for conducting the tour of District facilities last week; it helped him understand the budget as well.

Directors Hober and Hodgin each thanked General Manager McNiesh and Accounting Manager Catalano for all their hard work on budget.

3. CONSENT AGENDA:

Item 3.1 Approve Resolution No. 14-07, Authorizing Entering in to Funding Agreement with the State of California for Preparation of Scotts Valley Water District Water Recycling Plan.

Item 3.2 Approve Resolution No. 15-07, Authorizing Entering into AB303 Funding Agreement with the State of California for Butano Formation Hydrogeologic Investigation.

President Hodgin removed both items from the Consent Agenda for discussion.

4. ITEMS REMOVED FROM CONSENT AGENDA:

General Manager McNiesh made a date correction on both resolutions to November 8; reported Resolution No. 14-07 is a formality required for a grant application to help fund the District's planned recycled water master plan update; \$75,000 is maximum award in this grant program; grant funds would supplement existing Kennedy/Jenks contract scope of work, essentially expanding the project budget to enable more engineering work and more in-depth review of treatment and distribution operations; he noted the recycled water master plan update will also serve as the facilities planning report required of the District as a condition of receiving the Integrated Regional Water Management grant funds awarded earlier in the year; explained that Resolution No. 15-07 is a formality for seek funding through the state's Local Groundwater Assistance program (AB 303); District has received funds previously through AB 303; maximum award is \$250,000; if successful, funds would be used for installing Butano formation monitoring wells to, among other purposes, help with the siting of a new deep well in the northern part of the District; recommended Board approve both resolutions.

Director Hober moved, seconded by Director Kannegaard, to adopt Resolutions Nos. 14-07 and 15-07. Motion carried unanimously.

5. DIRECTOR'S AGENDA ITEMS

Item 5.1 Individual Director Reports:

President Hodgkin said it was a good use of time to take tour of District facilities; Board members concurred.

Assistant General Manager O'Brien said the Board completed about $\frac{3}{4}$ of the tour; another 2-3 hours would be required to visit the remainder of the District facilities. Board members agreed that they would like to finish the tour; discussed possible dates; decided to wait to set a date until January after the holidays.

Item 5.2 ACWA Update:

5.2.1 Voting Delegate for ACWA Officer Elections

General Manager McNiesh advised that ACWA nominating committee would make a recommendation for officers; there may also be a floor nomination; District will need to designate a delegate to vote. President Hodgkin asked Director Perri to be the delegate and vote for the District.

5.2.2 State Water Recycling Policy

General Manager McNiesh advised that he provided Directors with updated material on this issue prior to the meeting; State Water Resources Control Board (SWRCB) is in process of developing comprehensive new statewide water recycling policy; in his opinion, proposed direction of policy change is positive, encouraging more recycled water use and removing existing barriers; ACWA and WasteReuse Association have submitted critical comments on certain specific points; new policy probably not close to adoption since the required CEQA process still needs to be implemented. Attorney Bosso said he agrees and District will know more after the ACWA conference. President Hodgkin suggested District be prepared with comments for appropriate meetings.

Item 5.3 Anticipated Directors' Expenses

General Manager McNiesh said there should be discussion regarding reimbursement of spouses' expenses; Director guidelines are not clear on this point; section 16 regarding expense reimbursements says meals are not covered for guests, but provides no further clarification.

There was discussion by the Board regarding spouses' expenses being paid for by the District; it was decided to pay past expenses already incurred and in the future pay expenses for Directors only.

Director Hober moved, seconded by Director Perri, to clarify the ethics policy with a sentence that states that expenses incurred and paid for by the District are for Directors only, not spouses, for events occurring from this date forward. Motion carried unanimously.

Director Hodgkin advised that he would be attending a Regional Water Quality Control Board meeting later in the month.

Item 5.4 National Water Resources Association California Caucus Ballots.

There was discussion by the Board; Attorney Bosso said he knows candidate John Fraser; Director Hodgkin noted he is acquainted with Katy Foulkes. The Board agreed to vote for the four candidates from Northern California: David Breninger, Katy Foulkes, John Fraser, and Larry Russell.

6. COMMITTEE REPORTS:

Item 6.1 Business Administration Committee

6.1.1. LAFCO sphere of Influence Review

General Manager McNiesh reported that LAFCO does periodic sphere of influence reviews; the current LAFCO review is in progress and seeks a reply from the District by the following week; LAFCO would like to know if the District seeks to modify the existing sphere of influence; in the Board packet there is a diagram of SVWD boundary and sphere of influence; some areas of the District are outside of its sphere of influence and vice versa.

Attorney Bosso explained that originally spheres were described as areas a district wanted to serve; only those within the boundary can vote on issues concerning the district; LAFCO legislation does not allow a district to annex anyone not within its sphere; service outside a district boundary must be approved on a case-by-case basis.

There was discussion by the Board regarding the District's existing boundary, existing sphere, and possible sphere amendments. General Manager McNiesh advised that LAFCO on its own initiative would probably make only minor changes to the existing sphere; major changes would require a study and process to be paid for by the District or an applicant seeking District service. Board members concurred on identifying the following areas for potential inclusion in the District sphere: current areas within the District boundary but outside the sphere, all current extra-territorial services, the areas going out north to Mt. Roberta tank and Villa Fontenay, Monte Fiore and Gateway South areas, the area along Mt. Hermon Road extending out to Hansen Quarry, and other areas around the periphery of the District which could be readily served by extending current District mains; consensus of the Board is for staff to prepare and submit a map to this effect to LAFCO.

6.1.2 Leak Adjustment Policy

General Manager informed the Board that this is just a written report for their information.

Item 6.2 Water Resources Committee

6.2.1 Coordination with City of Scotts Valley on Water conservation Programs.

General Manager McNiesh reported that the Water Resources Committee met with City of Scotts Valley Green Building Subcommittee; City has wastewater reserve funds to devote to conservation effort; one option is to identify older, high water use toilets for retrofit at no cost to the customer.

Director Perri said the City is proposing to require all new commercial buildings to dual plumb toilets for future recycled water use.

In response to a Board question regarding Tree Circus Retail Development Project main extension agreement previously on the Board's agenda, General Manager McNiesh explained that there was no longer need for a main extension agreement for this project, as the Fire Protection District had dropped the requirement for a new fire hydrant off Scotts Valley Drive; recycled water service will still be required, but it will now be provided by a single service directly off the Scotts Valley Drive recycled main.

6.2.2 Annual Groundwater Management Program

General Manager McNiesh reported on consultant Kennedy/Jenks' progress on the District's annual groundwater management report.

6.2.3 Planning for Future Water Supply Needs

General Manager McNiesh reported that Water Resources Committee discussed future water supply needs, including regional desalination opportunities and the importance of interties between districts to enable water exchanges, conjunctive use programs, and effective emergency response.

Item 6.3 Facilities Engineering Committee

6.3.1 Solicitation of Formal Bids for Vineyards Homeowners Association Backflow Device Project

General Manager McNiesh said next step for new recycled water service at the Vineyards is to solicit bids for installation of backflow devices; as agreed, the District will hire a contractor to install the backflow devices and the Vineyards HOA will pay the District back over ten years at zero interest; District policy requires Board to approve projects of \$25,000 or greater and their technical specifications; he added that Woodhill Village

HOA board met last night and might want to piggyback on this project for the 34 installations there; District would like to have work done by end of February, in time for 2008 irrigation season.

Assistant General Manager O'Brien said there needs to be an aggressive timeline so Vineyards will be online for recycled water by the beginning of this irrigation season.

Attorney Bosso suggested providing for a bid that includes Woodhill Village.

Director Hober moved, seconded by Director Kannegaard, to approve going out to bid for Vineyards HOA backflow device project, with provision for including Woodhill Village if they choose to participate. Motion carried unanimously.

6.3.1 Updates to District's "Standard Technical Specifications"

General Manager McNiesh advised that this item would be considered more fully at committee level before being brought before the full board.

6.3.2 Recycled Water Project Expansion

General Manager McNiesh advised that the main topic of discussion at the committee meeting was the Pasatiempo project. Director Perri reported that he had represented the District at the Santa Cruz City Water Commission meeting on November 5th; Water Commission voted to recommend to City Council that it approve of a resolution of intent to participate in the project; one of biggest issues to get past is apparent need to amend Santa Cruz's water rights in order to provide exchange water back to SVWD.

7. STAFF REPORTS

Item 7.1 Accounting/Customer Service Reports

Accountant Michael Catalano said finance reports for June are in final audit form incorporating auditor adjustments, which were very few; he can perform year-end reports now that financials were approved tonight.

General Manager McNiesh said staff will plan to have a schedule on catching up financial reports at next Board meeting. He advised that a new item included is Aged Accounts Receivable, on page 7.1.19.

Item 7.2 Operational Reports

Assistant General Manager O'Brien reported about staff member Troy Adams and his work fighting fires in San Diego, and suggested that it would be appropriate if the Board recognized him. President Hodgkin requested staff prepare a letter of recognition for his signature.

Item 7.3 General Manager's Report

General Manager McNiesh advised he had no additions to the written report.

Item 7.4 Attorney's Report:

Attorney Bosso reported that he has reviewed sections of water rights code regarding delivering recycled water outside district; he is of the opinion this is not a significant issue; Santa Cruz city water rights attorney, who initially raised the question, agrees. Mr. Bosso stated he has worked with General Manager McNiesh on a letter to the Social Security Administration, which is general in terms of discussing the district's problem; this letter will go out shortly.

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

Director Kassis asked if previous General Managers and employees would be invited to the holiday party and was told they would be.

9. MISCELLANEOUS CORRESPONDENCE:

Item 9.1 Letter dated September 6, 2007, from Department of Water Resources approving District's 2005 Urban Water Management Plan.

10. CLOSED SESSION: Board went into closed session at 9:40 p.m.

Item 10.1 Public Employee Performance Evaluation Pursuant to Government Code 54957: General Manager

Item 10.2 Conference with Labor Negotiators Pursuant to Govt Code 54957.6
Agency Designated Representatives: Executive Committee
Unrepresentative Employee: General Manager

11. ACTION ON MATTERS CONSIDERED IN CLOSED SESSION:

The Board returned from closed session at 9:47 p.m. No action was taken.

12. ADJOURNMENT

Director Kassis moved, seconded by Director Kannegaard, to adjourn the meeting at 9:48 p.m. Motion carried unanimously.