

**SCOTTS VALLEY WATER DISTRICT
MINUTES OF THE
REGULAR BOARD MEETING
DECEMBER 14, 2006**

**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 7:00 p.m.

Item 1.2 ROLL CALL

Present: Directors Kassis, Hober, and Hodgin

Absent: Directors Kannegaard

Item 1.3 Pledge of Allegiance and Invocation

Director Kassis led the Pledge of Allegiance and Invocation.

President Hodgin recognized Roger Kern, Chris Perry, and Robert Smiley in the audience.

Item 1.4 Oath of Office for recently elected Directors

The swearing in of recently elected Directors took place December 11, 2006.

Item 1.5 Process to fill vacancy created by resignation of Director Watkins effective December 14, 2006

President Hodgin announced that there are only four Board members at this time as the Board received a letter of resignation from Director Watkins effective December 14, 2006.

General Manager McNiesh announced, after discussion by the Board, that the Board will meet Wednesday afternoon, January 3, 2007, at 4:00 p.m. to interview candidates for the vacant Board position.

Item 1.6 Reorganization of the Board

Director Hober nominated Director Hodgin as President of the Board; Director Hodgin seconded. Director Kassis nominated himself; nomination failed for lack of second. Director Hober moved to elect Director Hodgin as President; Director Hodgin seconded. Motion carried with Director Kassis abstaining and Director Kannegaard absent.

Director Hodgkin nominated and moved to elect Director Hober as Vice President; Director Hober seconded. Motion carried with Director Kassis abstaining and Director Kannegaard absent.

President Hodgkin advised that Director Kannegaard was sworn in on Monday, December 11th, but could not make it tonight because of a prior commitment.

Item 1.7 Approval of Minutes from the Regular Board Meeting of November 9, 2006.

General Manager McNiesh advised that the Minutes for Santa Margarita Groundwater Basin Advisory Committee meeting are not available.

Director Hober said that under Item 5.3 Anticipated Director Expenses, the minutes should note that there would be expenses for ACWA conference.

Director Hodgkin said that Item 6.1, third paragraph, second to last sentence, should say, "all Board members urged to attend" instead of "all Board members welcome".

Director Hober made a motion, seconded by Director Kassis, to approve the minutes of the Regular Board Meeting of November 9, 2006, as amended. Motion carried unanimously, with Director Kannegaard absent.

ADDITIONS/DELETIONS TO THE REGULAR AGENDA: None

PUBLIC COMMENTS ON ITEMS ON THE AGENDA: None

PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA: None

2. REPORT OF OUTSIDE AUDITOR ON DISTRICT'S FINANCIAL STATEMENTS FOR FISCAL YEAR END JUNE 30, 2006

Item 2.1 Presentation of audited financial statements and related documents by Auditor Robert Smiley of Berger/Lewis Accountancy Corporation

Robert Smiley addressed the Board, introducing himself and his company. He reported the firm's unqualified opinion regarding the financial statements; mentioned his letter to the Board dated September 22, 2006, outlining four recommendations for the Board to consider; highlighted some of the notes in the audit, including those related to PERS system rates and post-employment benefit costs.

Attorney Haight noted that the audit report inaccurately stated District policy regarding post-employment benefits in Note 9.

Mr. Smiley said he will make appropriate changes to his document and reissue it to the District.

Attorney Haight advised that if the Board approves the audit report, it should be approved subject to the discussed changes in Note 9.

Director Kassis made a motion, seconded by Director Hober, to approve the audit report, subject to changes made in Note 9 regarding the District's post-employment benefit policy. Motion carried unanimously with Director Kannegaard absent.

- Item 2.2 Consider acceptance of audited financial statements and approval of draft response to Auditor's management letter dated September 22, 2006

General Manager McNiesh advised that the draft letter of response to the auditor's letter would need to be reworded, if the District Guidelines are not adopted during the Consent Agenda. Action on the draft letter was deferred until after consideration of the Consent Agenda.

3. CONSENT AGENDA:

- Item 3.1 Approve Resolution No. 12-06, Expressing Appreciation to Paul H. Watkins for Ten Years of Dedicated Service on the Scotts Valley Water District Board of Directors

- Item 3.2 Approve Resolution No. 13-06 Expressing Appreciation to Robert M. Haight for Thirty-Seven and a Half Years of Dedicated Service as Scotts Valley Water District's General Counsel

- Item 3.3 Approve Resolution No. 14-06 Rescinding Resolution No. 21-03 Entitled "Adopting District Guidelines" and Rescinding Resolution No. 14-04 Entitled "A Resolution Adopting Policy for Providing Directors' Insurance"

- Item 3.4 Approve Resolution No. 15-06 Adopting the Scotts Valley Water District Guidelines for Members of the Board of Directors

- Item 3.5 Approve draft response to Santa Cruz County Grand Jury Ethics Training (AB 1234) Questionnaire

Director Hober said she would like to remove Item 3.4 from the Consent Agenda.

General Manager McNiesh advised that Item 3.3 should also be removed if removing Item 3.4, so the Board has some guidelines in place.

Director Hober moved, seconded by Director Kassis, to approve the Consent Agenda, as amended removing Items 3.3 and 3.4. Motion carried unanimously, with Director Kannegaard absent.

4. ITEMS REMOVED FROM CONSENT AGENDA:

Item 3.4: Director Hober said she asked for this item to be removed because she does not agree with District policy to provide health insurance to incoming Directors; this coverage represents a fairly substantial amount of money; agrees with continuing coverage for current Directors, who came on board with understanding that health insurance would be provided.

Director Kassis said items may have been discussed at committee level in detail, but not all information is available to all Board members; he needs time to review information before commenting on it.

Attorney Haight suggests having alternative wording to bring before the Board in writing allowing a full Board to discuss; Director Hober could work with General Manager McNiesh to come up with alternate language for consideration at next Board meeting.

General Manager McNiesh advised that the version in the packets is a strike-out version, showing recent changes; he distributed clean copies to facilitate further review.

Director Kassis asked about Board member attendance at committee meetings. Attorney Haight said any Board member can attend any committee meeting, even if that means a majority of the Board is present, but a non-committee member of the Board may not participate in the conduct of the committee meeting.

Further consideration of Items 3.3 and 3.4 was continued to January 9, 2007 meeting.

Given that the Board continued consideration of the Guidelines, General Manager McNiesh recommended that the Board approve the draft letter to auditor with a change in wording; change “adopted” to “reviewed” and add “and adoption is scheduled for early 2007” in draft District response letter on page 2.2-6.

Director Hober moved, seconded by Director Hodgins, to approve General Manager’s recommendation. Motion carried unanimously, with Director Kannegaard absent.

General Manager McNiesh recommended that the Board similarly modify the statement under #5 of the District’s response to the grand jury questionnaire, which had just been approved as Consent Agenda Item 3.5.

Director Hober moved, seconded by Director Hodgins, to modify Consent Agenda Item 3.5 draft response to grand jury questionnaire, question #5, to state that “Guidelines for Members of the Board of Directors” are under review and are expected to be adopted early 2007. Motion carried unanimously, with Director Kannegaard absent.

5. DIRECTOR'S AGENDA ITEMS

Item 5.1 Individual Director Reports:

Director Hober reported that she thought the ACWA conference was very worthwhile; she attended a seminar related to who pays for retiree health benefits; also attended recycle meeting regarding regulating recycled water.

Director Hodgins attended ACWA conference also and received important information; he has a large bag of things he obtained for the District; he also attended JPIA meeting; will be submitting a written report to Board regarding this meeting.

General Manager McNiesh reported that he attended Proposition 218 procedures session at ACWA conference; also attended an offline meeting regarding Proposition 50 grant funding with Department of Water Resources representative.

Director Kassis advised that he could not attend ACWA Conference this year due to wife's illness.

Item 5.2 ACWA Update:

5.2.1 "California's Water" Town Hall

General Manager McNiesh said there is an opportunity to participate in ACWA Town Hall meeting in February, however the letter was just received and the District's list of invitees is due tomorrow; he will see if ACWA would extend the deadline to come up with a list; the Board discussed and worked on compiling a list of all SVWD Board members, City Council, City Manager, editor of paper; General Manager said he will submit a guest list with names provided and discussed, including all Board members.

Item 5.3 Anticipated Directors' Expenses:

Director Hober said she turned in her ACWA expenses today.

6. COMMITTEE REPORTS:

Item 6.1 Business Administration Committee

6.1.1 Distribution of Directors' Handbook

General Manager McNiesh reported that staff member Colin Smith worked this week to put the Handbook together and Dave Hodgins came up with ideas to get started; it includes basic materials about District for current and new Directors to help get them started; will be updated periodically with new information; is intended to be useful ongoing tool

to be used by Board members; Directors should feel free to make suggestions for inclusion.

6.1.2 New Water Rate Ordinance

General Manager McNiesh reported there is a schedule in Board packet for reference; goal is to have adopted ordinance consistent with Proposition 218 by February 15, 2007; Prop 218 process requires all property owners get notice 45 days before public hearing; notice letter needs to go out next week; it is proposed to have a rate protest officer to receive any written protests and keep track of them; General Manager asked if Bob Haight would act as protest officer.

Attorney Haight said there is potential for lots of protests, which need to be organized since water districts now fall under Prop 218 requirements and are required to follow the protest hearing process; if there is not a majority protest, the Board may adopt the ordinance to increase rates.

There was discussion by the Board regarding the draft letter to go out to property owners; General Manager said he wanted to reword last paragraph; Attorney Haight advised that the letter needs to be informative showing cause and effect; Director Hober suggested letting public know that the financial model is available for them to look at.

Attorney Haight suggested the Board could approve the form of the letter subject to changes made by himself and the General Manager.

Director Kassis moved, seconded by Director Hober, to approve the form of the letter subject to changes made by Attorney Haight and the General Manager. Motion carried unanimously, with Director Kannegaard absent.

General Manager McNiesh advised that the Business Administration Committee met this afternoon to review rate increases. There was discussion by the Board.

Director Hober moved, seconded by Director Hodgins, to approve percentage for rate increase of 9.5% for current year and 6.5% per year for the next two years, to be approved after public hearing. Motion carried, with Director Kassis abstaining and Director Kannegaard absent.

6.1.3 Employee, Director, and retiree benefits

President Hodgins advised that no action is required.

7. STAFF REPORTS

Item 7.1 Accounting/Customer Service Reports

General Manager McNiesh advised that Katherine Partida, Interim Accountant, is not able to be here this evening.

Director Hober moved, seconded by Director Kassis, to accept staff reports as presented. Motion carried unanimously, with Director Kannegaard absent.

Item 7.2 Operational Reports

Operations Manager Bill O'Brien reported on update of leak on Reisling; hired Granite Construction to perform the Reisling repair; signed paperwork to move forward to purchase John Deere backhoe, included in budget; moving forward to obtain property for replacement Well 10A.

General Manager McNiesh added that draft plans and specifications are being prepared for Well 10A.

Item 7.3 General Manager's Report

General Manager McNiesh said there is nothing new to add to his written report.

Item 7.4 Attorney's Report: None

8. DIRECTOR'S COMMENTS ON ITEMS NOT ON THE AGENDA: None

President Hodgin mentioned Attorney Bob Haight's 37 ½ years of service to the Scotts Valley Water District and thanked him.

9. MISCELLANEOUS CORRESPONDENCE: None

10. CLOSED SESSION:

The Board went into closed session at 9:15 p.m. with General Manager McNiesh and Attorney Haight in attendance to consider the following items:

Item 10.1 Public Employment Pursuant to Government Code Section 54957:
Assistant General Manager/Operations Manager Position

Assistant General Manager O'Brien joined the closed session meeting at 10:02 p.m. for discussion related to Item 10.1. The Board returned to open session at 10:07 p.m. and remained in open session until 10:10 p.m. when it returned to closed session with General Manager McNiesh and Assistant General Manager O'Brien in attendance to consider the following item:

Item 10.2 Public Employment Pursuant to Government Code Section 54957:
General Counsel Position

The Board returned to open session at 10:19 p.m.

11. REPORT AND ACTION ON CLOSED SESSION ITEMS:

Upon return to open session at 10:07 p.m., Director Hober moved, seconded by Director Hodgins, to approve an amendment to the Assistant General Manager's Memorandum of Understanding providing for a 2.5% salary increase retroactive to December 8 2006, and an automatic cost-of-living increase to take effect July 1, 2007. Motion carried unanimously, with Director Kannegaard absent.

Attorney Haight departed, and the Board returned to closed session at 10:10 p.m.

Upon return to open session at 10:19 p.m., General Manager McNiesh reported as follows: No reportable action was taken in closed session regarding Item 10.2.

11. ADJOURNMENT

Director Kassis moved, seconded by Director Hober, to adjourn to the District Christmas party to be held at Peachwood's Steakhouse on December 14, 2006, at 6:00 p.m. Motion carried unanimously, with Director Kannegaard absent.