

**NORTH MARIN WATER DISTRICT
MINUTES OF REGULAR MEETING
OF THE BOARD OF DIRECTORS
March 1, 2011**

CALL TO ORDER

President Schoonover called the regular meeting of the Board of Directors of North Marin Water District to order at 7:30 p.m. at the District headquarters and the agenda was accepted as presented. Present were Directors Jack Baker, Rick Fraites, Steve Petterle and Dennis Rodoni. Also present were General Manager Chris DeGabriele, Secretary Renee Roberts, Auditor-Controller David Bentley and Chief Engineer Drew McIntyre.

Novato residents Ed Grundstrom and Rob Manzoni and District employees Robert Clark (Operations/Maintenance Superintendent), Doug Moore (Construction/Maintenance Superintendent) and Alicia Manzoni (Consumer Services Supervisor) were in the audience.

MINUTES

On motion of Director Baker, seconded by Director Fraites the Board approved the minutes from the previous meeting by the following vote:

AYES: Directors Baker, Fraites, Petterle, Schoonover
NOES: None
ABSTAIN: Director Rodoni
ABSENT: None

GENERAL MANAGER'S REPORT

Mr. DeGabriele stated that he had nothing to report.

OPEN TIME

President Schoonover asked if anyone in the audience wished to bring up an item not on the agenda and there was no response.

STAFF / DIRECTORS' REPORTS

President Schoonover asked if staff or Directors wished to bring up an item not on the agenda and the following items were discussed:

Stafford Treatment Plant Production

Robert Clark informed the Board that the Stafford Treatment Plant will start production this week.

Aqueduct Energy Efficiency Project Draft EIR

Drew McIntyre advised that the Board will receive a copy of the Draft Environmental Impact Report for the Aqueduct Energy Efficiency Project with their agenda packet for the March 15th meeting. He said that staff will request the Board to release the Draft EIR for public review at the March 15th meeting.

ACTION CALENDAR

APPROVE: RECYCLED WATER EXPANSION TO THE NORTH SERVICE AREA – SEGMENT 1 CONSTRUCTION PROJECT – APPROVE BID ADVERTISEMENT

Drew McIntyre reported that staff is ready to advertise for bids for the construction of the first segment of the North Service Area Recycled Water Expansion Project. He stated that the North Service Area Project will be constructed in three segments and that Segment 1 is to extend recycled water pipelines approximately 5,000 feet from the Atherton Avenue Fire Station, along H Lane to Valley Memorial Park Cemetery. He said that contract documents state that contractors can bid on open cut trench or perform horizontal directional drilling, or both, and staff will select the lowest cost method. Mr. McIntyre advised that the contract documents have been reviewed by ESA, environmental consultants for conformity with environmental mitigation requirements of the North Bay Water Reuse Authority Environmental Impact Report. He said that the project is funded 25% through the federal American Recovery and Reinvestment Act, and the remaining 75% with a loan from the State Revolving Fund. He said the loan application is currently being reviewed and it is hoped to get final approval for the SRF loan in April which would correspond with the award of the project.

Mr. McIntyre advised that a Request for Proposals for Construction Management for the three segments has been released and staff anticipates completing the selection process within four to six weeks and will bring staff's recommendation to the Board for approval.

Director Baker inquired how the project would proceed if state funding was not awarded.

Mr. McIntyre replied that the District would seek private financing.

On motion of Director Petterle, seconded by Director Baker and unanimously carried, the Board authorized the bid advertisement of the Recycled Water Expansion – North Service Area Segment 1 Construction Project.

CONSIDER: REQUEST FOR ADDITIONAL BILL ADJUSTMENT – DRAKES VIEW DRIVE

Mr. Bentley stated that he reported at a previous Board meeting of a massive water leak at a property in Paradise Ranch Estates. He said that the house was destroyed in the 1995 Mt. Vision

fire but that the water service was left on and the property owner, John Carpenter, has continued to pay the bi-monthly service charge. A chart of his water use history was provided. He said that Mr. Carpenter received a bill for over \$10,000 for the 654,000 gallons of lost water and that Mr. Carpenter was eligible for and received a bill adjustment pursuant to District policy for \$7,311 leaving a balance of \$3,100. Mr. Bentley said that the customer is appealing to the Board for a further reduction and that Mr. Carpenter feels he should only pay the \$37 bi-monthly service charge. He said that staff recognizes that \$3,000 is still a significant bill amount and suggests that Mr. Carpenter's bill be further reduced to \$1,319 which represents the District's marginal cost of water plus the bi-monthly service charge.

There was discussion among the Board.

Director Petterle asked about Mr. Carpenter's high water use in 2005 as shown on the chart. Mr. Bentley responded that a leak occurred at that time and his bill was adjusted.

Director Rodoni stated that he agreed with staff's recommendation and suggested that Mr. Carpenter be advised to install a shutoff valve that can sense when a leak occurs and automatically shut off the water.

On motion of Director Rodoni, seconded by Director Fraites and unanimously carried, the Board approved a further reduction in Mr. Carpenter's water bill to \$1,319 and staff will encourage Mr. Carpenter to install an automatic shut-off device.

INFORMATION ITEMS

LATE CHARGE AND SHUT-OFF POLICY

Mr. DeGabriele stated that at the previous meeting, the Board asked that the Late Charge and Shut-Off Policy come back for review. He introduced Consumer Services Supervisor Alicia Manzoni and stated that she handles delinquent customers who often call to ask for special consideration. He stated that Ms. Manzoni does a good job, and is fair to customers while making sure District policy is followed.

Ms. Manzoni addressed the Board and summarized the Late Charge and Shut-Off Policy. She explained that if the customer has not paid after the second notice, they are put on the shut-off list; each Wednesday afternoon, the field service representative is sent to the customer's home to either collect payment or shut off the water. She said that if a customer has special circumstances, she will make payment arrangements with the entire bill paid in full within two weeks. She advised that customers on the shut-off list are charged a \$25 trip charge and \$35 turn-on charge.

Ms. Manzoni answered questions from the Board and stated that customers who call the District after hours are directed to “press 7” to be connected to the Novato Police dispatch who will notify the on-call field service representative to respond. She said that she believes the policy is generous and works well.

POINT REYES PRE TANK 4 DEWATERING

Mr. Clark provided information to the Board about the Paradise Ranch Estates (PRE) Tank 4 dewatering that occurred on February 19th. He said that a storm affected the tank level sensors at both PRE Tanks 3 and 4 resulting in false tank levels on the SCADA system. He said that after the three-day holiday weekend, staff did a cursory review of the system and noted that the tank levels were normal. He said that on Wednesday morning, February 23rd, a customer called reporting no water; when staff checked the SCADA system, it was indicating positive water levels even though Tank 4 had been completely drawn down. Mr. Clark stated that the distribution operator turned on the pump and the tank was filled restoring water to customers. He said a Precautionary Water Quality Alert was distributed to forty customers, that bacteriological samples were taken at Tank 4, a sample station and the closest residence to the tank and tested as required. He said that there were no contamination issues and by Friday, February 25th customers were noticed that the Water Quality Alert was canceled.

Mr. Clark informed the Board that staff reviewed the event and determined that a discharge pressure sensor already installed in the SCADA system can be set as a secondary alarm to alert staff of low tank levels to avoid a repeat occurrence.

NOVATO FIVE-YEAR FINANCIAL PLAN & RATE ADJUSTMENT OPTIONS TO CONSIDER – INITIAL REVIEW

Mr. Bentley presented the five-year financial plan and proposed rate structure adjustments. He reminded the Board that in 2009, a series of five annual rate increases were proposed and summarized staff’s recommendations for rate adjustments for the Board’s consideration. He advised that the District will need to borrow money for its major projects; and since the District last issued debt in 1986, its credit rating needs to be reestablished. He said that staff recommends that the Board adopt three consecutive 11% annual rate increases this year to demonstrate to the financial community that the District has the ability to assume additional debt. Mr. Bentley reviewed the rate increase timeline and stated that the District is required by law to notify every customer of a proposed rate increase 45 days before the public hearing which is scheduled for May 24th.

Mr. Bentley reviewed the five-year financial plan and explained FY 2009 goals and assumptions. He stated that declining water sales, the economic slowdown in new development

and advanced scheduling of projects not forecasted in 2009 are the factors that have depressed the District's cash reserves. He stated that labor costs are projected at 3% across-the-board and the cost of water from Sonoma County Water Agency will increase 5.4% in FY 2011/12. Mr. Bentley further stated that capital improvement projects that are projected at \$2.7M per year are proposed to be phased back to \$2M. He advised that connection fee revenue has dropped significantly and projections for future connection fee revenue have dropped to 20 equivalent dwelling units (EDU) from projected 90 EDUs. He said that in 2009 it was projected that by FY 14 with the series of rate increases, the District would have 90% of its operating revenue in reserves; however, now, projections show that reserves will be depleted. Mr. Bentley reviewed the typical customer annual water cost showing a steady rise for the next five years.

Mr. Bentley gave a PowerPoint presentation to explain the three main reasons for the rapid drop in cash balance and options for the Board to consider.

Mr. Bentley stated that water consumption was previously projected at 3.1 billion gallons; however, volumes dropped in FY 10 and FY 11 to 2.7 billion gallons. He advised the shortage of 300 million gallons per year for five years equals \$5.5M loss in water sales.

Mr. Bentley stated that the city and county's general plans in the Novato service area project an additional 1,800 EDUs in water demand during the next 20 years; that averages 90 EDUs per year. He said that since February, connection fees for six dwelling units have been collected and there is no additional development in Novato on the immediate horizon. He said that the drop in projected new development for a five-year period would result in \$5.9M in revenue not realized.

Mr. Bentley next addressed projected new debt. He said that there are four new projects that were not anticipated coming on so quickly two years ago – the Aqueduct Energy Efficiency Project requiring approximately \$7M, the Office Renovation (\$6M); the Recycled Water Expansion Project; and Radio Read Meters. He advised that if the SRF low interest loan to fund the Recycled Water project does not come through, the District will need to finance the project at a higher interest rate.

Mr. Bentley stated that revenue cannot be controlled but there are ways to control costs and he reviewed staff's options for cost containment: Reduce CIP to \$2M/year, Defer Office Renovation and Radio Read Meter projects, leave four vacant positions unfilled, eliminate COLA, step and benefit increases, defer vehicle and equipment replacement, reduce water conservation rebates, employee layoffs, and one furlough day per month for all employees. He asked for the Board's feedback.

Director Fraites opined that toilet and washer rebates can be reduced or eliminated.

Director Schoonover said that the recommendations affecting employees will require negotiations with the Employee Association.

Mr. DeGabriele stated that staff planned this year to not fill the vacant positions with the intent of providing cost savings; however, the forecasted revenue has not been realized. He said temporary employees have been used to backfill positions in Construction and there are two vacancies at the Stafford treatment plant leaving only three operators which will likely impact water production. He said the District has to make decisions that will not result in problems in the future. He said staff is requesting the Board to provide direction and feedback on which options to pursue.

Director Baker expressed concern with not having enough staff to cover for unexpected situations that may arise and that may become a problem for the District.

Director Rodoni stated that the District needs to look at the organization and determine what the important positions are. Mr. DeGabriele said that staff is looking at the organization to accommodate vacant positions with current staff.

Director Fraites asked if potential development along the SMART route has been factored in.

Mr. DeGabriele said that the projection is consistent with the current Novato General Plan but that with the economic slowdown, new development is not expected any time soon.

Director Rodoni opined that too much weight is being put on the development dollar.

Director Petterle stated that he agrees with the cost containment options with priority for those that do not affect employees.

Mr. Bentley turned his presentation to the water rate structure. He said that he proposes an 11% revenue increase which can be a combination of a water rate increase and other options. He reminded the Board that the outside auditor suggested the District increase its bimonthly service charge to increase revenue. He said that, as the Board pointed out recently, the District's commodity rate structure is very complicated with a total of 26 different rates. He said that staff is recommending that Zone D be eliminated and be included in the Zone C rates.

Director Baker stated that there were valid reasons (including additional costs) that the District had historically established separate commodity rates for both Zone D and "Outside" customers even though they were small in number compared to the remaining zones A, B and C customers. He further commented that he was not comfortable with staff's proposal to meld the

Zone D and "Outside" customers into Zone C where their new rates would be partially subsidized by other customers.

Mr. Bentley continued and said the District's cost structure is 73% fixed and the revenue side is 15% fixed and that staff recommends moving the rate structure fixed percentage up to 20% or 25%. He advised that the bimonthly service charge for a 5/8" meter is currently \$14.40 which corresponds to 16% of revenue and that by raising the bimonthly service charge to \$20 or \$25, it would generate 22% and 28% of revenue respectively.

Director Rodoni suggested allowing low water users a dedicated amount of water to be coincident with the increase in the bimonthly service charge.

Mr. DeGabriele said that that would create another tier and all customers would be included. He opined that this would create extra administrative work and confuse customers.

Mr. Bentley stated that an 11% rate increase would raise the typical Novato water customer's annual water bill to be \$582; and assuming that other agencies do not increase their rates, would be just below the median on the Urban Water Cost Comparison chart.

Director Petterle suggested that staff hold a workshop for the Board to go over the financial plan and discuss staff's recommendations and options. Mr. DeGabriele suggested Tuesday, March 8 at 7 p.m. and the Board concurred.

Novato resident Ed Grundstrom opined that the more rates are raised, the less water customers will use, and that the Board consider adopting all the cost containment options presented.

URBAN WATER MANAGEMENT PLAN STATUS UPDATE

Mr. DeGabriele reported that he has been working with the water contractors and with Marin Municipal Water District over the last two months in developing the 2010 Urban Water Management Plan (UWMP). He said that for the District, the 2035 demand estimates are approximately 14,500 acre feet per year (without conservation), down significantly (10%) from the 2005 UWMP due principally to ABAG projections for both population and jobs are much lower than five years ago. He stated that additionally, conserved water is increased from the UWMP Plan 2005 due to new plumbing code requirements which were not adopted five years ago. Mr. DeGabriele said that with conservation included, the District's water requirements are projected to be 12,585 acre feet per year at 2035; and that it was agreed with Sonoma County Water Agency that the District would rely on 1,000 acre feet of local supply and another 670 acre feet of recycled water resulting in SCWA demand just under 11,000 acre feet in year 2035.

Mr. DeGabriele stated that the estimate of rate projections and water supply planning are very important and it is hard to determine future needs because of the past three years of drought, water restrictions during summer months and calls for conservation, which have all driven down demand. He advised that the Board has been given a chart depicting the proposed 2010 UWMP Demand/Water Conservation Offset/Supply compared with a Likely Scenario Demand/Water Conservation Offset/Supply. Mr. DeGabriele stated that the Likely Scenario chart indicates that there may be more recycled water and local supply than what is projected in the UWMP.

Mr. DeGabriele informed the Board that a new UWMP requirement is compliance with the legislature's SBx7-7, California's 20% per capita water demand reduction by year 2020. He stated that currently Novato is using 124 gallons per capita per day which is a result of reduced demand following three years of drought and water use restrictions. He said that future projections show that the District will most likely not meet the 20% reduction target by 2020. Mr. DeGabriele advised that he has asked the water contractors to consider a regional approach to comply with SBx7-7. He said the TAC has agreed, and he is hopeful that the WAC will also approve a regional alliance at the next WAC meeting on March 7th.

Mr. DeGabriele reported that agencies and water suppliers in the region have been notified of the Plan's update. He said that another new UWMP requirement is that a public hearing be held with a sixty day notice. He said that the proposed public hearing date June 21, 2011.

WAC/TAC MEETING – MARCH 7, 2011

Mr. DeGabriele stated that the WAC/TAC meeting is scheduled for March 7 and the request for a regional alliance to comply with SBx7-7 will be voted on. He advised that the other item for approval is the SCWA budget for next fiscal year; the District's rates are proposed to increase 5.4%.

NORTH BAY WATERSHED ASSOCIATION MEETING – MARCH 4, 2011

Mr. DeGabriele reviewed the agenda for the North Bay Watershed Association meeting for March 4, 2011 and stated that the draft budget will be considered. He said that there is very little change for the District, a fee reduction of approximately \$30.

STATE WATER RESOURCES CONTROL BOARD LICENSE 4324B REPORT

Mr. DeGabriele stated that annually, the District is required to provide the State Water Resources Control Board a report on the diversion of water from Lagunitas Creek. He said last year was a normal year and the District reported that it did not use any licensed water right. He stated that during 24 days last year, Lagunitas Creek streamflows were below those required for

Water Right Order 95-17 and at no time did the District diversion from Lagunitas Creek exceed 0.67 cfs.

MISCELLANEOUS

The Board received the following miscellaneous information: Disbursements and Reimbursement Program 2010.

ADJOURNMENT

President Schoonover adjourned the meeting at 9:29 p.m.

Submitted by

Renee Roberts
District Secretary