

May 29, 2013
Regular Meeting
6:02 p.m.

The Board of Directors of the San Benito County Water District convened in regular session on Wednesday, May 29, 2013 at 6:02 p.m. at the San Benito County Water District office at 30 Mansfield Road, Hollister, California. Members present were: President John Tobias, Vice President Joe Tonascia and Directors Frank Bettencourt, Sonny Flores and Joe Torquato. Also present were District Manager/Engineer Jeff Cattaneo, District Counsel David E. Pipal, Assistant Manager Sara Singleton, Deputy District Engineer Dale Rosskamp, Supervising Accountant Natalie Sullivan, Water Conservation Program Manager Shawn Novack, Office Specialist I Carolyn Garcia and Office Specialist III Barbara Mauro.

CALL TO ORDER

President Tobias called the meeting to order at 6:02 p.m.

- a. **Pledge of Allegiance to the Flag**
President Tobias led the Pledge of Allegiance.
- b. **Approval of Agenda**
With a motion by Vice President Tonascia and a second by Director Bettencourt, the Agenda was unanimously approved.
- c. **Public Input: Members of the Public are Invited to Speak on any Matter not on the Agenda**
There were no public comments.

CONSENT AGENDA:

1. **Approval of Minutes for:**

April 19, 2013	Special Meeting
April 24, 2013	Regular Meeting
2. **Allowance of Claims**
3. **Acknowledgement of Paid Claims prior to the May Board Meeting**
Director Bettencourt asked what the payment to Nicholson's was for. Mr. Cattaneo stated it is related to the Sub 9 break repair.

With no further questions, a motion was made by Director Bettencourt and seconded by Director Flores; the Consent Agenda was unanimously approved.

REGULAR AGENDA:

4. **Consider Resolution Restating the District's Investment Policy**
Mrs. Singleton stated the Investment Policy has been reviewed by both the Investment Committee and District Counsel and there are no changes. Mrs. Singleton added it is a requirement by the Board that the policy is reviewed annually.

With a motion by Vice President Tonascia and seconded by Director Torquato, Resolution #2013-13, *A Resolution of the Board of Directors of the San Benito County Water District Restating the District's Investment Policy* was unanimously approved.

5. Consider Amending Resolution 2012-13 Regarding the District Policy on Restriction and Designation of District Net Assets/Cash

Mrs. Singleton stated this is also an item that the Board requires have an annual review. This item comes to the Board with the recommendation of the Finance Committee. Mrs. Singleton reviewed the definitions and stated the changes proposed are due to the upcoming projects for the Hollister Urban Area Water Projects (HUAWP). The first change is to establish a new designation to hold funds to be used for the HUAWP. This would be to transfer ~\$18 million out of the Restricted Reserve and move to this new designation. The second would be the establishment of a designation for the USBR Rate Management Reserve for a target minimum of 18 months of payments for the Amendatory Contract repayment. The third would be to establish a target minimum of \$500,000 for the Reach 1 Replacement Reserve. This change would also have to be reported to Santa Clara Valley Water District, as required by our Bi-Lateral agreement with them. The fourth change is to clarify the language requiring six months of operating expenses in reserve to exclude the water treatments plants.

With no questions from the Board, a motion was made by Vice President Tonascia and seconded by Director Torquato, Resolution #2013-14, *A Resolution of the Board of Directors of the San Benito County Water District Amending Resolution #2012-13 Regarding the District Policy on Restriction and Designation of District Net Assets/Cash* was unanimously approved.

6. 2013-2014 District Budget

a. Presentation of 2013-2014 District Budget

Mr. Cattaneo, using a Power Point presentation, reviewed the proposed budget. Mr. Cattaneo stated it is a balanced budget and the District staff worked hard to accomplish this.

Regarding both the Operating and Capital Budgets, Mr. Cattaneo reviewed the sources of revenue and how the funds are used.

For development of the budget, Mr. Cattaneo reported he worked one-on-one with each manager and gave final approval for each department.

By Zone, the Net Operating Income, after transfers and contributions, is balanced except for Zone 1, as its tax revenue is fixed. Zone 3 would also be in the red, if Zone 6 did not buy water from Zone 3.

For revenue, staff has verified the property taxes should remain unchanged from last year and interest rates remain low on the District's investments. This does not take into account the interest revenue from the HUAWP, per Mr. Cattaneo. Water rates for Ag will be the same while M & I will be slightly higher. Water sales will be lower, if our allocation is low next year.

Mr. Cattaneo reviewed Operating Revenue and Expenses by their sources. Revenue is anticipated to be down due to the sale of water. Wages and the Cost of Water are the largest operating expenses.

Under General and Administration, Mr. Cattaneo reviewed what is contained in this portion of the budget. Regarding wages, the District has the same number of employees. There will be a 1% increase on July 1st and the employer's contribution to PERS is also increasing.

Materials and Equipment encompass mostly supplies, vehicle equipment and maintenance, as well as computers and meters.

Mr. Cattaneo gave examples of items in Contract Services, such as legal, engineering, computer maintenance and general consulting. Contract Services-Operations are items such as stream flow monitoring, GIS mapping, water quality testing, WRA and water conservation. Contract Service-Programs are more specific, such as the Hernandez Reservoir Management Plan, the USBR Water Management Plan and the IRWMP.

In summary, Zone 1 has a deficit of \$9611 and Zones 3, 6 and 104 are all balanced.

Under the Capital Budget, Mr. Cattaneo reviewed the projects contained in this part of the budget, such as the North Area Banking Project, San Justo Reservoir Work Plan, Reclaimed Water Project and the Salt and Nutrient Management Plan. Mr. Cattaneo reviewed the components in the Capital Budget.

In summary, the Capital Projects and the CVP Amendatory pay-back are the largest part of this portion of the Capital Budget.

Mr. Cattaneo stated the budget comes to the Board with the recommendation of the Finance Committee.

Vice President Tonascia asked how we are tracking, budget versus actual. Mr. Cattaneo replied some areas are under budget. Zone 3, for example, is over budget because the repair to the Paicines Canal was more than anticipated. Mr. Cattaneo stated he will come back to the Board in August to review the fiscal year, with final numbers.

b. Consider Board Approval of 2013-2014 District Budget

With no further questions, a motion was made by Director Flores and seconded by Director Bettencourt; the Board of Directors unanimously approved the 2013-2014 District Budget.

7. Consider Authorizing District Manager to Execute a Consulting Agreement with Harry Blohm for Services Relating to: Program Management of the Hollister Water Project

Mr. Cattaneo stated Mr. Blohm's contract normally comes before the Board in August or September each year. It is coming earlier this year because the District has exhausted Mr. Blohm's budgeted amount because of the extra work he has done for the HUAWP, especially the work for Lessalt. This contract will have all of his costs devoted to the HUAWP and will go into the project costs. The total amount is not to exceed \$85,000, which includes a \$6,000 contingency.

With a motion by Director Bettencourt and a second by Director Flores, the Board of Directors unanimously authorized the District Manager to Execute a Consulting Agreement with Harry Blohm for Services Relating to: Program Manager of the Hollister Water Project.

8. Discuss and Consider Approval of the Water Supply & Treatment Agreement for the Hollister Urban Area Water Projects

Mr. Cattaneo stated this agreement before the Board is a complete and comprehensive agreement. Also, this agreement has been reviewed by District Counsel. Recitals H through K are regarding recycled water, which is very important to the District. This section will be an agreement between the City of Hollister (COH) and the District.

Article 2, is the terms of the agreement, per Mr. Cattaneo. The term will be 30 years or until the capital recovery is complete, whichever is longer. Article 2.1, the conditions required by the agreement will be the approval of an Operation and Maintenance Agreement between the District and Sunnyslope County Water District (SSCWD) and effective water rates. The O & M Agreement is pending legal review.

Article 3, is the quantity of water to be provided by the District. The District is committing 4760 AF annually from its sources (CVP, water transfers and groundwater). Mr. Cattaneo reported he is working with Jan Goldsmith (Kronick, Moscovitz, Tiedemann and Girard) to increase the District's allocation in water short years for M & I to the full amount, which would be 8250 AF/annually.

Article 3.3 states on March 1st of each year, the District will supply the retailers (COH/SSCWD) with a written projection of the water available for the water year (March 1st through end of February). By March 15th of each year, the retailers are required to advise the District on how much water is needed monthly for the year and it will be up to the District to decide if water is needed from any other outside sources.

Article 3.4 is regarding the limitations in supply of water. This section states the District has no control over hydrologic conditions. Vice President Tonascia asked if the United States Bureau of Reclamation (USBR) needs to be included in Sections 3.3 and 3.4. Mr. Cattaneo replied no, as the USBR allocates water to the District but it is up to the District to allocate water to its customers.

Article 3.5 is regarding Water Quality, per Mr. Cattaneo. Article 3.5 (a) The District has the sole discretion as to the sources of water provided. According to the Master Plan, the Total Dissolved Solids (TDS) goal is 500 milligrams per liter (mg/L), the agreement states no higher than 700 mg/L for which affordability was the driving force. The agreement also states the hardness of the water to not be greater than 120 mg/L (calcium carbonate). Article 3.5 (b) The District is responsible for meeting the treated water requirements established by the Department of Public Health (DPH). If the District is fined but the fines are not a result of the District's negligence, these costs can be passed on through the treated water rates.

Article 4 is the establishment of an Advisory Committee to be made up with one representative from each agency. The importance of this, per Mr. Cattaneo, is that it will foster continued cooperation between the three agencies. The authority of the committee is limited as the owner of the facilities, which will be the District, will have the final say. Article 4.3 states there will be a minimum of one meeting quarterly as well as annually each March regarding the water allocation.

Article 5 refers to the water supply and treatment program facilities. Article 5.1 (a) is regarding the District's commitment of funds. The District is committing up to \$30 million for these projects. Article 5.1 (b) states if the actual costs exceed \$30 million, the three agencies will meet and with a written consent from both retailers, the District will seek additional funding. The repayment for this funding will be the principal, plus interest and 25 basis points (equivalent to ¼%). Article 5.2 refers to the projects included in the agreement. The projects are: the upgrades to the Lessalt Water Treatment Plant (WTP), the Pipeline to the high zone and the West Hills WTP. The land for Lessalt is currently owned by the COH and the plant is jointly owned by the COH/SSCWD. This will be transferred to the District. Once the pipeline to the high pressure zone is completed, it will be conveyed back to SSCWD. Currently, the land for the West Hills WTP site is jointly owned by the COH/SSCWD; this will also be transferred to the District. Article 5.3 (a) refers to the ownership of the facilities. The agreement states ownership of both the Lessalt WTP and the West Hills WTP will be the District. Article 5.3 (b) refers to the operation of the facilities. SSCWD will be the operator of the Lessalt WTP and when complete, the West Hills WTP. The pipelines will be operated by each retailer, using their own distribution systems. The in-flow and out-flow from the plants will be maintained by the District at the meters. Article 5.3 (c) pertains to the capital improvements to program facilities. Part of each monthly payment will be set aside in a capital reserve account. If improvements are needed, funds will be withdrawn from this account. If at any time, this account is insufficient to pay for a needed improvement, the District will seek funding if necessary and receive compensation of principal and interest plus 25 basis points.

President Tobias asked if the COH and SSCWD are asking for five year terms in their Prop 218 notices. Mr. Cattaneo stated yes. Mr. Cattaneo added it limits improvements to the number of customers provided for at the time of signing. It does not allow for increased capacity; that would be a different agreement.

Article 6, is regarding payment for water service. Article 6.1 states each retailer is responsible to pay 50% of the cost of water. Article 6.2 states each retailer is responsible to pay 50% of the capital costs. Article 6.3 refers to the structure of payments. The agreement states the retailers will make monthly payments to the District. A portion of the monthly payment will consist of a base rate which will be made up of a capital component, an administrative fee component*, direct cost component, and a capital replacement reserve component. (*The administrative fee component will be billed quarterly rather than monthly.) Another portion of the monthly payment will be the water supply component. This component is made up of the cost of raw water, shortage conditions could add additional costs and if the retailers request additional water, this could also add to this component. The final component of the base rate is the treated water component. This component will consist of the operation and maintenance (O & M) costs from SSCWD, extraordinary O & M costs and the power cost from the treatment facilities.

Article 6.4, Financial Covenants, is set forth in Exhibit F, which Mr. Cattaneo stated is most important to the District. Mr. Pipal stated the COH and SSCWD pledge/lien their net water reserve to the District. Mr. Pipal added it establishes security for the \$30 million loan. This pledge/lien will operate in parity with any other creditor who has a pledge. Mr. Pipal stated it does offer the retailers an opportunity to come to the District and ask to take a lower position, however; he stated the District is under no obligation to grant it if it alters its own security position.

Article 6.5 is regarding billing and payment. Article 6.5 (a) pertains to invoices, which is pretty straight forward. Article 6.5 (b) is regarding the non-reimbursable District credit. Each retailer will be offered \$5 million credit from the District. There will be two tranches, so each retailers will be given \$2 million credit at the first tranche and \$3 million credit at the second tranche. There are two options for the use of this credit; it can either be used for rate stabilization or for capital buy-down. Once they decide which option, however, they can't change their mind and the use will be the same for both tranches. Article 6.5 (c) is regarding payments. The District will invoice on the 10th of each month and payment is due by the 15th of the following month and if late, will incur a 10% per annum late charge.

Mr. Blohm added that SSCWD will consider this agreement at either their June 5th or June 12th Board meeting and the COH will consider it at their first July City Council meeting.

President Tobias thanked District staff and District Counsel for all their hard work and stated this is truly a milestone for the San Benito County residents.

With a motion by Vice President Tonascia and a second by Director Bettencourt, the Board of Directors unanimously approved the Water Supply & Treatment Agreement for the Hollister Urban Area Water Projects.

9. Staff Report on the Hollister Urban Area Water and Wastewater Master Plan Update

Mr. Blohm reviewed the calendar of upcoming items in relation to the Hollister Urban Water Projects. Some of the items on the calendar were the Prop 218 proposed mailing dates, the WSTA approval, approval of the proposed rates and the transfer of both the Lessalt WTP and the land for the site of the West Hills WTP.

Mr. Blohm stated Mr. Novack would give an update on the public outreach. Mr. Novack stated ads at the local movie theater began last weekend and the video on the projects is running on all websites. He has been handing out flyers at the Farmers Market and there will be bill inserts in June and July for both the COH and SSCWD. The managers are attending the June 1st LULAC meeting and there is a public workshop scheduled to be held at the Veteran's Building the evening of July 9th. Additionally, Mr. Novack reported the materials are available in English and Spanish. Mr. Blohm stressed the importance of all of the agencies working cooperatively for the Prop 218 mailings. President Tobias added the agencies should keep the press in the loop. Mr. Cattaneo added yes, but it can be difficult.

10. Committee/Agency Representative Reports:

a) San Luis Delta Mendota Water Authority (Tobias/Tonascia)

Vice President Tonascia stated there is a proposal from a public relations firm, Scott Studios, for \$10,000 which would show why Californians need water. Vice President Tonascia added this proposal is more like what he thought we should do. Part of the proposal from Scott Studios, shows using a smart phone for free access to information, he found intriguing.

b) Pajaro River Flood Prevention Authority (Bettencourt)

Director Bettencourt reported a presentation was given on the San Benito County Water Shed and bids have been received for the second phase of the Bank Excavation Plan.

c) Water Resources Association (Flores/Bettencourt)

Director Flores stated general business was discussed which included Water Awareness Month, public outreach for the Hollister Urban Area Water Projects and the proposed 2013-2014 Budget.

d) Joint Powers Insurance Authority Spring Conference in Sacramento (Bettencourt)

Director Bettencourt reported the audited financial statements and the benefit reports were reviewed. Also, JPIA thanked the District for hosting training opportunities. Mrs. Singleton added the District also utilizing JPIA's lending library, as the field personnel have weekly safety meetings.

e) Administration Committee (Tobias/Flores)

Mr. Cattaneo reported the committee discussed the WSTA, Mr. Blohm's contract and the lease for 10 Mansfield. The committee decided to leave the rent as is for the coming year but advised the tenant an increase was likely in the following year.

- f) **Finance Committee (Bettencourt/Torquato)**
Director Torquato reported the items discussed by the committee have already been covered.

11. District Manager/Engineer's Report:

- a) **Reach 1 Operations**
Mr. Cattaneo reported staff attended the quarterly meeting at Santa Clara Valley Water District.
- b) **Zone 3 Operations**
Mr. Cattaneo reported all of the reservoirs are low. Also, the District received a public record request, which is being processed, from Peter Lorincz.
- c) **Zone 6 Operations**
Mr. Cattaneo had nothing further to report.
- d) **San Luis Delta Mendota Authority Activities**
Mr. Cattaneo had nothing further to report.

12. Adjournment

With no further business to discuss, the meeting was adjourned at 8:30 p.m.

Minutes were approved at the June 26, 2013 Board Meeting and signed by the presiding board member.

/s/John Tobias
John Tobias, President

/s/Barbara L. Mauro
Barbara L. Mauro, Recording Secretary