

NORTH MARIN WATER DISTRICT
MINUTES OF SPECIAL PUBLIC HEARING MEETING
OF THE BOARD OF DIRECTORS
May 26, 2009

CALL TO ORDER

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

There were approximately forty people in attendance. District employees Katie Young, Darrell Bynum, Alicia Manzoni, Carmela Chandrasekera and John Mello were in the audience.

President Rodoni asked that all members of the public wishing to speak to the Board fill out a Public Speaker Card and to limit their time to three-minutes.

OPEN TIME

President Rodoni 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 Rodoni asked if staff or Directors wished to bring up an item not on the agenda and there was no response.

PUBLIC HEARING

CONSIDER PROPOSED 25% INCREASE IN WATER RATES FOR NOVATO SERVICE AREA AND RESULTING REVISIONS TO DISTRICT REGULATIONS 54, WATER RATES AND 6, CROSS CONNECTION AND BACKFLOW PROTECTION FOR POTABLE WATER SERVICE

Mr. DeGabriele stated that Mr. Bentley will make a presentation to the Board, and that questions will be answered following the presentation.

Mr. Bentley stated that customers were notified of the proposed rate increase and public hearing by individual letters pursuant to Prop 218, and the public hearing was noticed in the Novato Advance. He reported that the District received twenty-two letters or emails and ten phone calls, the majority opposing the rate increase, although two letters were in support and two letters asked for additional information about the increase.

Mr. Bentley said one year ago the District had forecasted an 11% increase in water rates in 2009 on the assumption that water sales for the coming year would be as budgeted and that the

cost of Russian River water would increase by 7%. He said that there was a 25% decrease in the amount of Russian River diversions and that the Sonoma County Board of Supervisors has approved a 25% increase in the cost of water delivered to North Marin Water District. He said that in addition, the ratio of District reserves to operating expense has fallen to 64%. Mr. Bentley explained that all of these factors combine to form the basis of staff's recommendation that there be a 25% across-the-board rate increase to all Novato customers. Mr. Bentley presented a Power Point presentation addressing water supply and the Russian River water system, the District's reserve balance, how the decline in water sales have impacted the District's financial reserves, and rate structure.

Mr. Bentley stated that the Sonoma County Water Agency (SCWA) supplies water to nine different cities or special districts: Santa Rosa, Windsor, Sonoma, Rohnert Park, Cotati, Petaluma, Valley of the Moon, North Marin and Marin Municipal Water Districts. Mr. Bentley advised that at the regular Board of Directors meeting of May 19, 2009, the Board adopted an Emergency Water Conservation Ordinance asking Novato customers to reduce their water use by 25% compared to their 2004 use. He said this 25% reduction is a result of the State Water Resources Control Board Temporary Urgency Order triggering Phase 2 of the Emergency Water Conservation Ordinance mandating a 25% reduction in all non-essential water use and water waste prohibitions; and that the reduction applies to all of the nine water contractors.

Mr. Bentley said that because of the anticipated 25% reduction in water sales by SCWA coupled with the \$100M estimated cost to enhance fish habitat at Dry Creek, they have increased their cost to the District by 25%; and accordingly, North Marin Water District staff has recommended to the Board to approve the resolutions amending Regulation 54 and Regulations 6 reflecting a 25% increase in water rates effective June 1, 2009.

Mr. Bentley stated that over the past 10 years, the District's financial reserve balance has fallen; and at the end of April, the District had \$7.7M in reserve or 64% of operating expenses. He said it is Board policy that the reserve level be equal to 90% of operating expense. He reported that over the last decade, debt has increased from \$1.1M in 2002, up to \$16.6M currently; and it is anticipated that the debt will go higher in the future. Mr. Bentley explained that the District has had several major projects including Stafford Treatment Plant Rehabilitation Project, three new storage tanks, has completed the boundary reorganization in Hamilton, and seismically retrofitted and recoated five water storage tanks. He added that a significant amount of money was expended on pipeline relocations coincident with the City of Novato's bond project.

Mr. Bentley stated that the District's five-year financial plan calls for a 25% water rate increase this fiscal year followed by 9% increases in each of the next four years. He said that 81% of Novato's water is for residential use, 14% is commercial and 5% government. Mr. Bentley said that over the last 10 years there has been a 1.3% annual increase in consumer accounts; at the same time, the total water consumption of Novato customers is decreasing at 0.4% over the same time period.

President Rodoni opened the public hearing at 7:52 p.m.

Bob Abeling, Indian Valley Road, asked if the \$100M for the enhancement of Dry Creek is a sum mandated or requested by state or federal agencies. He said that he was shocked at the 9% increase for the next four years and stated that a 25% increase would hurt customers and suggested a 10 to 12% increase. He asked if it was legally possible to give customers only a week's notice of a rate increase.

Mr. Bentley responded that it was legal to impose an increase as long as it was done prospectively. He said that there currently is anticipated 9% increases proposed for the next four years because of the District's goal to achieve a reserve level that is 90% of the operating expense by 2014. Mr. Bentley stated that the \$100M for enhancement of Dry Creek is an order included in the biological opinion from the National Marine Fisheries Service (NMFS). Mr. DeGabriele added that the Sonoma County Water Agency received the biological opinion that contains a laundry list of eight items that must be complied with over the next 15 years. He said the NMFS is the federal regulatory agency responsible to protect the fisheries and that there are three endangered species in the Russian River; coho salmon, Chinook salmon and steelhead trout. He advised that the current estimate is \$100M for the local share to carry out those activities.

Penny, Blackpoint, asked if the District has taken into account the current legislation in Congress for carbon tax and how this might impact the customer's utility bills.

Mr. Bentley responded that the carbon tax has not been factored into the financial plan; but presumably, if there was a carbon tax there would be further cost increases. Mr. DeGabriele added that one of the proposed District's projects is a solar energy production project at the Stafford Treatment Plant to offset the electrical costs at the plant. He said District is pursuing funding for the project at no or low cost financing.

Todd Smith, 2052 Feliz Road, stated that North Marin Water District's notification of 25% water rate increase is inconceivable at a time when people are losing their jobs and struggling to keep their homes. Mr. Smith said that knowing 80% of water is provided by and dependent on

SCWA, the District should have planned and been prepared to be more self-sufficient by building more and better water storage facilities such as reservoirs and underground water storage aquifers that would minimize water evaporation. He suggested that the District pursue some of the federal government stimulus money for these water storage needs. Mr. Smith stated that he protested the 25% water rate increase.

Mr. DeGabriele responded that Novato is fortunate to have the local Stafford Lake supply and the District has made a huge investment in the Stafford Treatment Plant to ensure its continued production of clean reliable water. He said that additionally, the District is working with Novato Sanitary District in developing recycled water that is used for irrigation at Stone Tree Golf Course and at Novato Fire Station No. 4, and that there are plans to expand recycled water in the future to other large turf irrigators in Novato to reduce irrigation use of potable water. Mr. DeGabriele said that in reference to additional storage, the District has discussed with Marin Municipal about accessing the Soulejoule Reservoir to convey water over to the Stafford Treatment Plant for treatment. He stated that in regards to groundwater, there is not a suitable groundwater basin in Novato that would be cost effective for the District to develop. He said that the reason the North Marin Water District was formed in 1948 was because groundwater wells in Novato became saline and were abandoned.

Vic Perrella, Monroe Ct., thanked Mr. Bentley for responding to his letter so quickly. He stated he would like to share his observations of the information received from Mr. Bentley. He stated that revenues over the last 5 years from 2004 thru 2008 have gone up 19% and yet the expenses during the same period went up 53%. Mr. Perrella said that depreciation has gone up 94% which occurred in 2007 and 2008 due to the Stafford Treatment Plant project, which is a non-cash item. He stated that he is concerned that cost of water in 2008 versus 2007 has gone down by \$731,000 and that the investment earnings in 2008 primarily because the District has invested in fixed income securities and there has been a market for fixed income appreciation versus the stock market resulting in \$700,000 increase. Mr. Perrella asked Mr. Bentley if it was a realized appreciation or mark-to-market on District securities. Mr. Bentley stated that it was mark-to-market. Mr. Perrella said that the \$700,000 was an unrealized appreciation. He said the cash equivalent, fixed income securities, under 90 days have increased from 2007 to 2008 from \$2.9M to \$5.3M. Mr. Bentley said that these are funds invested in the Local Agency Investment Fund. Mr. Perrella expressed his concern about the cost of District employee benefits, salaries and retirement plans. He said that there was a 20% increase in benefits, approximately 10% of total revenue of the past year. He further stated that if, Novato customers have to fund CalPers for the District's benefit

plans and that Novato has been hit hard economically. He stated that he thinks the District has a responsibility to be looking at the costs of employee's salaries and benefits in terms of District revenue.

Bob Koch, Santolina Drive, stated that he thinks that water is too cheap and if it were more expensive, it would be valued and not wasted. He asked Mr. Bentley to clarify that the Board voted to ration water based on the customer's previous use. Mr. Bentley said that the District is not rationing water, but has asked customers to cut back 25% compared to their 2004 use. Mr. Koch said that people who have wasted water will have plenty, but that people like him who use less than average will be penalized. Mr. Bentley explained that people who use less than 200 gallons per day will not be subject to the 25% reduction in water use. Director Rodoni explained that the customers who use a lot of water are subjected to the tier rates. Mr. Koch asked if they will be allowed a higher allotment. President Rodoni said that the District is hopeful that in time those customers will become aware of their water consumption and will decrease their usage because of the tier rates.

Bill Wright, Black John Rd, informed the audience that he was in attendance at the first meeting of the water district in 1948 when he was in high school. He said that the District wants to raise rates 25% and it says it gets 80% of the water from SCWA, but if the numbers are worked out, that's only 20%. He also stated that the increase of 25% would be especially difficult on people in agriculture. Mr. Bentley responded by stating that the main driver for the 25% increase is for the need to replenish the District's reserve levels and that the District is looking to do that over a 5 year period.

Rodney Bosche, President of Indian Valley Homeowners Association, Indian Valley Rd, stated that increases from 2004 to 2011 will be 79% of revenue and water use is down 14%. He said that he had attended the previous meeting wherein the District had approved a 15% reduction and that now the mandatory reduction is 25%. He then discussed the expenditures of the District regarding employee salaries and benefits and that the District was planning on increasing salaries another 5% this year. He said that capital expenditures are almost \$12M since 2004, which drained the deficit and the District spent money it didn't have. He stated that he lives in a horse community and that wanted to know how he would maintain his landscape that he was required by the County of Marin to install and how he would provide water to his horses. He then addressed the solar project for the Stafford Treatment Plant and questioned its cost-effectiveness. He asked what today's power supply costs are for Stafford Treatment Plant.

Director Rodoni said that the Emergency Water Conservation Ordinance approved at the previous Board meeting was for a 25% mandatory reduction compared to customers' 2004 usage in non-essential use and water waste prohibitions, except if the customer used 200 gallons a day or less. He clarified for Mr. Bosche that there had been an ordinance imposing a 15% reduction but that the State Water Resources Control Board Order of April 6 ordered the Sonoma County Water Agency to reduce deliveries to all contractors by 25% which triggered the adoption of Ordinance 22. Director Rodoni said that the District is fortunate to have the Stafford Treatment Plant which will start up production very soon to backstop SCWA supplies during summer and he emphasized that if the District did not spend \$18M on the new Stafford Treatment Plant, customers would likely see a 50% reduction in water usage this summer.

Mr. Bentley advised that the power cost for the Stafford Treatment Plant is \$120,000 per year and further advised that the District does not have an approved solar project. He said that the federal government has appropriated \$1M in zero interest rate funds for the project, but that more low interest funds are needed before the District goes forward with the project. Mr. Bentley said that the District has spent funds on capital improvements and has increased its storage capacity by 28%. He advised the District uses the Consumer Price Index to determine salary increases and that at this time, a salary increase is not proposed this year. Mr. DeGabriele said that the water being used for animals will be paid for at the price that will be determined by the Board by tonight.

Ken Harth, Sunset Parkway, stated that the building of Warm Springs Dam was meant to provide water and alleviate water shortages in Novato. He said that his concern is that our water is being cut off and he would like agencies to give the District money to run a pipe so it can reconnect to Lake Sonoma where there is water available, and therefore soften the blow on the ratepayers. He said that he did not know how much the water district can push back to protect its investment in the system and being denied access to the water. He stated that the rules are changing in mid-stream and creating havoc.

Mr. DeGabriele stated that Mr. Harth is correct that Lake Sonoma was constructed and does hold sufficient water to meet our region's needs now and in the future; however the federal listing of threatened and endangered fish in the Russian River have changed the rules and that the National Marine Fisheries Service Biological Opinion outlines a list of activities that must be undertaken by SCWA. He stated that one of those activities is a feasibility study of a pipeline to take water directly out of Lake Sonoma, and transport it, bypassing Dry Creek, to the Russian River. Mr. DeGabriele explained that the National Marine Fisheries Service requires that the fishery enhancements to Dry Creek with improvements to habitat for the fish must be done first to

determine if it will work before the new pipeline can be constructed. He advised that the estimated cost of the pipeline is \$250M to \$400M. President Rodoni added that the water contractors of Sonoma County Water Agency are looking to the federal government and other agencies to help fund the improvements to Dry Creek, but the projection is still \$100M to the water contractors.

Joe Correia, Brown Dr, stated that the District should look at its overall costs and asked why the District is so dependent on Sonoma County for water. He suggested that the District needs to plan better and find ways to capture water before it runs into the bay and to find solutions other than raising rates.

Marian Blakeslee, Robinhood Dr, asked is the 25% actual increase attributable to the \$100M infrastructure costs. Mr. Bentley said that is part of the reason for the 25% increase; the SCWA increased the District costs for water by 25% based on their reduced water sales and increased costs. Ms. Blakeslee asked what the time frame is for the SCWA increase and Mr. Bentley replied that this is the annual increase effective July 1. Ms. Blakeslee stated she felt the timing is poor and suggested that District should team with Marin Master Gardeners to out reach to the public on how to save water. She said that the District should modify its goal of five years for the increasing reserves as it's too ambitious for this economy and encouraged more creative thinking in ways to capture water. She further stated that the ordinance wording was confusing and it needs to be re-written.

Director Schoonover asked how much of a difference there would be if the District increased the time required for raising the reserves. Mr. Bentley said that we can moderate the rate increase as necessary and if the Board decided to reach the goal in 6 or 8 years that would reduce the amount of increase required over time to reach the goal. Mr. Bentley stated that he felt that five years is a long time to reach the target and that he is concerned with the current reserves level and that they will continue to fall, even with the proposed increase, before building back up. He further stated that it's prudent to make a dramatic turnaround now and build the reserves at this time and not to put it off.

Frank Tallarida, Thunderbird Rd, stated that the timing of the increase is terrible and asked why this wasn't started five years ago before the economic crisis. He urged the District to not increase the rates. He stated that the District should change its defined benefit plan to a defined contribution plan and that the District's unfunded liability will be hitting the ratepayers in years to come. He asked how much money went into employee benefits and how much is expected to go in for the next five year. Mr. Bentley said that all public agencies are required to conduct an actuarial study on how much liability they should have on the books to fund to retirees medical benefits. He

said that the District conducted an actuarial study which showed a liability of \$3.3M and that the District is more than 2/3 of the way funded. Mr. Bentley stated that the District has an aggressive funding plan and the District will be fully funded. Mr. Tallarida asked how many employees had been terminated over the last 5 years and Mr. Bentley stated that District staff has increased by two or three employees.

Randy Dodd, Arthur St, suggested an increase of 12% each year for the next five years. Mr. Dodd said that the District should use the reserves now during these hard times so that a 12% increase won't seem so bad.

Michael Foley, Indian Valley Rd, asked if the 25% of the water is coming from the Stafford Lake is a yearly figure. Mr. Bentley stated that it was an annual amount. Mr. Foley asked questions about the energy costs of the proposed solar project at Stafford Treatment Plant. Director Rodoni explained that the District is not limited to the power use at Stafford Treatment Plant, but that because we are a public agency power costs can be offset by using other District facility meters to offset those costs. Finally, Mr. Foley asked if the rates were the same for agricultural use. Mr. Bentley stated that the increase is across the board for all rates and charges.

Dennis Molloy, Atherton Ave, suggested that when Stafford Lake goes dry, the District should make the lake deeper to add more water storage. He said that he agreed that the District needs to stretch out reserves over a longer period of time. Mr. DeGabriele stated that the dredging of Stafford Lake is a study in the improvement project budget proposed for next fiscal year.

Mike Ribbon, 50 Archibald Lane, asked how the 200 gallon per day per household figure was determined, asked if revenue is decreasing due to reduced consumption why is there a call for 25% reduction in water use; and he also asked what the reserves are used for and why the District needs such a large amount.

Mr. DeGabriele said that 200 gallons per day was a threshold that staff developed based on typical household indoor water use. Mr. Ribbon asked what percentage of households fall into that category. Mr. Bentley stated 31%. Mr. Bentley said that increasing rates because of reduced water use, then asking customers to reduce their water use even more, compounds the problem. He said that a year ago, the District projected an 11% increase before the reduction in water use was mandated by the State Water Board. Mr. Bentley explained that there are seven major reserves and some are required and restricted by law; for example, connection fees can only be used for enhancement of the water system to provide for additional capacity, and cannot, by law, be used for operating expenses. He explained the purpose of the other reserves. He said that there is approximately \$1M reserved for any contingency that may occur and that it is his recommendation

that the District have \$4M in reserves for that purpose. Mr. Ribbon asked why the District is using 2004 water use as a benchmark. Mr. DeGabriele stated that 2004 was selected by the State Water Resources Control Board because that year was a declared a “normal” year. Mr. Ribbon asked for consideration of raising the 200 gallons per day limit. Director Rodoni clarified that the threshold was added into the ordinance that was approved by the Board at the previous meeting.

Ed Grundstrom, Hatch Road, stated that when the aqueduct was built, its purpose was to convey water for Novato, not Marin Municipal and said that the District wheels almost as much water as is used in Novato to Marin Municipal. He asked where the 1.2 million gallons stored in Stafford Lake for Marin Municipal came from. He said that Marin Municipal is entitled to only surplus water and Novato should have the priority for that surplus water. He further stated that Novato saw a 57% increase in rates in the last 3 years for 47% less water. He said that the current board is a “rubber stamp board” and the only way to make any changes is through the ballot box.

Mr. DeGabriele explained that Novato customers paid for the North Marin aqueduct which originates in Petaluma and continues to Novato; and that there is excess capacity in the aqueduct from time to time. He further explained that during the drought of record in the 1970's, Marin Municipal asked if they could receive Russian River water. He said that there was not enough capacity unless Marin Municipal constructed a pumping plant to increase deliveries from the Russian River to Novato. He said that Marin Municipal constructed that facility and North Marin authorizes Marin Municipal to use excess capacity using the pumping plant. He stated that North Marin Water District controls when the pumps operate and when deliveries to Marin Municipal get cut off and that Marin Municipal pays North Marin to wheel their Russian River water through the North Marin aqueduct. He stated that the agreement with Marin Municipal during this dry spring was that the District would wheel Russian River water into Stafford Lake in the winter months at Marin Municipal's expense and then as North Marin treats the water it will sell it to Marin Municipal. He advised that because of the rainfall in February (which filled Stafford Lake), only 350 acre feet of Russian River water was backed into the lake which was paid for by Marin Municipal.

Dietrich Stroeh, Vineyard Road, stated that this is the second, possibly the third year of drought and the North Bay water users are facing an unknown future. He said that everyone has to understand that there are limited resources and that North Marin Water District has been the most innovative District in the State of California for future water supply. He said the District doesn't have a choice but to raise the rates because of what they are being charged from SCWA.

Larry Heon, Wild Horse Valley, asked if Marin Municipal's rate will be increased 25%. Mr. DeGabriele said that the District's actively negotiating the intertie connection, including new

wheeling rate. Mr. Heon asked what the value was of the surplus property the District has. Mr. Bentley stated that the District has surplus properties that are on the market; but unfortunately with the way the market is and the location of the properties, no one is interested.

George Allen, Red Bud Ct, asked if Marin Municipal paid \$1M to pump water into Stafford Lake or did the District spend \$93,000 to pump 700 acre feet into the lake? Mr. Bentley said that Marin Municipal will pay the District \$350,000. Mr. DeGabriele said that half of that amount is for the water that was backfed into lake and the other half is for treatment of the water going out. He said that the \$1M was an estimated cost to Marin Municipal before the rains came when the backfeeding operation was discontinued.

Kathryn Brown, Simmons Lane, stated she was not a customer of North Marin in 2004 and how would her usage be calculated. She asked what impact the statements from the community have on the Board's decision. President Rodoni said that when everyone is done commenting the community will hear the Board's comments.

President Rodoni asked if anyone else wanted to speak.

Steve Kantor, Bel Marin Keys, stated that if it weren't for the federal regulations protecting the endangered fish species, there would be plenty of water.

Ginny David, Margory Ct, urged the Board look at the reserves and tweak and numbers.

George Allen asked if it was true that Stonetree was getting charged full rates for the reclaimed water rate. President Rodoni said that Stonetree was getting the same increase as all Novato customers.

Mr. Abeling asked that the Board to vote down the rate increase and reconsider the numbers.

President Rodoni closed the public hearing at 9:25 p.m.

President Rodoni explained that the Board does have the privilege of postponing the decision as well as changing the proposed rate increase. He explained that it has been a difficult time for the Board because the District has not had to look at rate increases like this in years. He said that there were a number of years that there were no rate increases or very little. He said that the District is paying for it now because the District we spent down our reserves keeping the water system infrastructure in shape to provide our customers with good quality water.

Director Schoonover said that he had heard several questions which require some research and tweaking, one being the length of time to get the reserve up to the maintenance level, and

another being to stretch out and equalize the rate increases over a period of years. He said that he resented being called a “rubber stamp board” and that in the 24 years he’s been on the Board, he never received a pay increase.

Director Baker stated something has to be done given the drought and problems that SCWA is facing with production and water releases for the fish and like it or not, this is the reality. He said that the District has to do something. He stated that most water contractors get all of their water from SCWA and that North Marin is lucky to have Stafford Lake to supplement that supply. He said that half of the agencies that get their water from SCWA are facing the same issues as North Marin.

Director Fraites stated that this is the third year of a drought. He said this is a two edged sword – if we conserve water District revenues drop and the District is constantly battling this problem and that’s why the District has to raise rates. He said that before proceeding with the solar energy project at Stafford Treatment Plant, the District will attempt to get every deal that is available. He said that the Federal government is willing to spend money on solar and alternative energy and the District might be able to get a portion of that money. Mr. Fraites stated that the number one goal is to keep the District solvent, but that he would like to revisit how to structure the rate increase to try to ease the pain. He stated that there will be a rate increase. He further stated that the District is not heavy with employees and that the employees are very dedicated and work very hard.

Director Petterle stated that the issues of water supply facing Marin County is very complex as is water law. He advised that on June 2nd SCWA will be making a presentation to the North Marin Water District Board on the water supply situation, and the people will be able to hear the water agency explanation on water supply. He stated that as a Novato resident, he too, will feel the effects of the water use restrictions and rate increase. He said these issues are not unique to Novato; that the North Bay is particularly hit hard with the water delivery restrictions but that in seven or ten years, those problems may be resolved. Director Petterle said the Board is charged with making the system operate efficiently so that high quality water is provided to its customers. He said that he is interested in taking a look at a way to spread out the increase in rate charges. He said that he did not see anyway around the increase but thinks that with some creative discussion the Board may be able to lessen this year’s impact.

President Rodoni said that water is going to get more expensive and there will be less of it . He said that the Board and customers need to accept that fact. He suggested that the customers take advantage of the District’s water conservation programs and do whatever is necessary to conserve water on their property. Director Rodoni said that this is a very large increase and that he

has heard what the audience has said tonight. He said that he can ask staff for alternatives to the 25% increase, but he cautioned that we are just postponing the inevitable.

Director Petterle asked what the other options are.

Mr. Bentley said that the District could look at a reduction this year but it will be offset by higher rates in future years to achieve the goal to increase reserves in five years. He said the Board could decide to raise rates by 20% this year and 11% for the next 4 years instead of 9%. He advised that reducing the rate increase below 25% this year will result in higher customers' water bills in 2014. He said another option would be to increase the time to build up the reserve beyond five years. He said that he is concerned that the District is creating a bow wave of need. Mr. Bentley said that the District has been putting off increasing rates for a long time and his recommendation, in the best interest of the District, is to face this and go ahead and adopt the 25% increase. He further stated that 90% reserve balance is very conservative and that most agencies operate at levels over 100%.

Director Petterle asked what the risks to the District would be if the rate increase was 15%.

Mr. Bentley said that the reserves would fall to a point where the District would have to get a line of credit at the local bank and add interest to the costs. He said that there would be higher interest paid and would ultimately result in higher costs.

President Rodoni stated that he currently sits on the SCWA Water Advisory Committee and that he would have trouble banking the District's budget on SCWA's expected costs for subsequent years. He said that at the same time, he would entertain a 20% rate increase in terms of the risk and that it would give customers a break knowing that in subsequent years, customers would pick up the difference. He stated that 15% was too low and too risky and that 25% is too high.

Director Petterle suggested that the rate be dropped down to 17% but that if another rate other than 25% was proposed tonight he would prefer to not take action tonight and but ask the auditor to prepare an analysis for further review.

Director Baker said that 17% is not prudent.

Mr. DeGabriele stated that if the Board does not make a decision tonight then the Board would also delay enactment of the rate increase so there is a longer period of time until the rate increase is in effect.

Director Petterle suggested a special meeting in 2 weeks.

Mr. DeGabriele stated that the District has compiled with Prop 218 and that the District would have to notice the customers of the continuation of the hearing. Mr. DeGabriele asked Mr. Bentley how much it would cost the District in lost revenues if the decision to increase rates was prolonged.

Mr. Bentley stated that if the increase was started July 1st instead of June 1st that would be \$350,000 in revenues would be forgone.

President Rodoni said that his recommendation would be to act on the increase tonight. He stated that 20% is reasonable.

Director Fraites asked that if the District went with 20% this year, for the next four years the District would impose an 11% increase.

Mr. Bentley stated that that would be his recommendation. President Rodoni said the increase for only this year is being considered tonight.

Director Schoonover asked if the District is looking into changing the period of time for increasing the reserves.

Mr. Bentley said that the District's five-year projection has some really good scenarios that next year the District could be back to normal. He said that if the District has more deficit years then the Board would have to come back and look at increasing rates again. He stated that there are some risks in cutting the increase back too low.

Director Baker made a motion to approved Resolution 09-16 amending Regulation No. 54 pertaining to water rates and charges to reflect an increase of 20% for all Novato service area customers. Director Fraites seconded the motion.

Director Schoonover called for a roll call vote and the Secretary called each Directors name and the following vote is recorded.

Director Baker: Aye

Director Fraites: Aye

Director Petterle: Aye

Director Rodoni: Aye

Director Schoonover: No

On motion by Director Fraites, seconded by Director Baker and unanimously carried the Board approved Resolution 09-17 amending Regulation 6 pertaining to Installation, Testing and

Maintenance of Cross-connection and Backflow Protection Devices to reflect an increase of 20% for Novato service area customers.

ADJOURNMENT

President Rodoni adjourned the meeting at 9:50 p.m.

Submitted by

Renee Roberts
District Secretary