

**NORTH MARIN WATER DISTRICT
MINUTES OF REGULAR MEETING
OF THE BOARD OF DIRECTORS
March 15, 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.

Pat Collins and Carrie Lukacic of Winzler & Kelly, Novato resident Ed Grundstrom and District employees Robert Clark (Operations/Maintenance Superintendent), Doug Moore (Construction/Maintenance Superintendent) and John Mello were in the audience.

MINUTES

On motion of Director Baker, seconded by Director Rodoni and unanimously carried the Board approved the minutes from the previous meeting as amended.

GENERAL MANAGER'S REPORT

Novato Sanitary District Strategic Plan Workshop

Mr. DeGabriele reported that he attended the Novato Sanitary District (NSD) Strategic Plan workshop on March 5 wherein there was a brief conversation on the consolidation of NSD with North Marin Water District. He stated that the NSD Board asked for his opinion and he opined that any exploration of consolidation of the two agencies be undertaken independently by a third party such as Marin LAFCO.

Tomales Bay Watershed Council

Mr. DeGabriele informed the Board that he made a presentation earlier today to the Tomales Bay Watershed Council on the District's West Marin operations. He said that Paul Helliker of Marin Municipal Water District, Jennifer Blackman of Bolinas PUD and Scott McMorrow of Inverness PUD were also presenters.

Op-Ed Article in Novato Advance

The Manager advised that an Op-Ed article on the District's Recycled Water Expansion project will be published in the Novato Advance on March 16. He said the public will be invited to attend a workshop on March 22, 2011 on the proposed Ordinance 24, approving revisions to District Regulation 18 Recycled Water Service.

OPEN TIME

President Schoonover asked if anyone in the audience wished to bring up an item not on the agenda and the following items were discussed:

Ed Grundstrom suggested that the Board consider debt counseling because of proposed major projects and ensuing debt that the District will incur this fiscal year.

STAFF / DIRECTORS' REPORTS

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

MONTHLY PROGRESS REPORT W/QUARTERLY CUSTOMER SERVICE

Mr. DeGabriele provided the monthly progress report for the month of February and stated that water production for Novato, West Marin, Stafford Treatment Plant and Recycled Water was very similar to the previous year. He said that even though water production is up 5% in Novato, consumption is down. He reported that Stafford Treatment Plant started production on March 4 and noted that Stafford Lake elevation and storage is identical to last year's information through the month of February. Mr. DeGabriele advised that there is ample freeboard in both ponds in Oceana Marin. He further advised that staff worked just shy of two years without a lost time accident or injury but that one lost time accident occurred on March 1. He said that the Summary of Complaints and Service Orders are on par with last year.

David Bentley reviewed the Auditor-Controller's monthly report of investments and stated that that cash balance decreased by \$200,000 for a total balance of \$6.5M; the portfolio rate of return on investments has dropped to 0.7%. He said that the Wells Fargo medium term note has matured and it has been reinvested in the Local Agency Investment Fund (LAIF).

CONSENT CALENDAR

At the request of Director Baker, Item 7, Correcting Grant Deed – George A. Grossi et al, was removed from the consent calendar for further discussion.

On the motion of Director Baker, seconded by Director Petterle and unanimously carried the following items were approved on the consent calendar:

RISING SUN ENERGY CENTER WATER USE SURVEY AGREEMENT

The Board authorized the General Manager to execute an agreement with Rising Sun Energy Center to fund the water portion of the California Youth Energy Services "Green House Call" Program in Novato for 2011 and 2012. The Green House Call Program includes the installation of energy and water-saving fixtures and conservation education.

CORRECTING GRANT DEED – GEORGE A. GROSSI, ET AL

This item was removed from the Consent Calendar at the request of Director Baker.

Director Baker stated that the Board approved the Stafford Lake Property Exchange agreement on June 3, 2003 between the County of Marin, the District and the George Grossi family, and asked why the original Grant Deed was not recorded until March 30, 2004.

Mr. DeGabriele responded that it took some time for the County to gather the signatures and execute the Property Exchange Agreement.

On motion of Director Baker, seconded by Director Fraites and unanimously carried, the Board authorized the President to execute the Correcting Grant Deed for property conveyed from the District to the Grossi family pursuant to the referenced Property Exchange Agreement.

SET PUBLIC HEARING TO CONSIDER APPROVAL OF ORDINANCE 24 & REGULATION 18 REVISIONS

The District is working with North Bay Water Reuse Authority to expand the use of recycled water through the North Bay Recycled Water Program. In order to be eligible for State Water Resources Control Board Clean Water State Revolving Fund low-interest loans for project funding, the state is requiring Market Assurances from end water users. The recommended option for obtaining the Market Assurances is development of a Recycled Water Use Ordinance.

The Board authorized staff to set a public hearing for 7:30 p.m. on April 19, 2011 to consider approval of Ordinance 24 Approving Regulation 18 Recycled Water Service and Regulation 18 (Recycled Water) revisions.

ACTION CALENDAR

ADOPT REVISED STATE REVOLVING FUND LOAN RESOLUTIONS – APPLICATION FOR RECYCLED WATER PHASE 2 NORTH SERVICE AREA PROJECT

Drew McIntyre stated that the Board approved two applications for financial assistance to the State Water Resources Control Board for the Recycled Water Phase 2 North Service Area project and adopted two resolutions in January 2010. He stated that the first resolution authorizes the General Manager to act on behalf of the District and the second resolution authorizes a dedicated revenue source for loan repayment. Mr. McIntyre said that based upon comments from the State Board, the two resolutions need to be revised to reflect minor changes in project name and description. He said that the application has been reviewed by State Board staff and is compliant with State Board requirements; it is now being reviewed by the State legal counsel. He opined that State legal counsel may have comments and that he will return to the Board for approval if any changes to the applications are required. Mr. McIntyre stated that once that review

is finished, the applications will be scheduled for approval by the State Board, most likely in June. He further stated that once the State Board approves the document, the District will have the funding commitment for construction.

On motion of Director Baker, seconded by Director Rodoni and unanimously carried, the Board adopted Resolution No. 11-02 entitled, "Application/Authorized Representative Resolution" and Resolution No. 11-03 entitled, "A Resolution of the Board of Directors of the North Marin Water District to Approve and Authorize Dedication of a Revenue Source for the North Marin Water District Repayment of State Revolving Fund Financing (CWSRF Project No. 5211-110)."

AGREEMENT FOR GRANT FACILITATION FOR NORTH SAN PABLO BAY RESTORATION AND REUSE PROJECT WITH SONOMA COUNTY WATER AGENCY

Mr. McIntyre said that in September 2010, the US Bureau of Reclamation awarded Sonoma County Water Agency a \$7.3M grant for the North San Pablo Bay Restoration and Reuse program under the American Reinvestment and Recovery Act. He advised that the subject agreement is the mechanism by which the grant funds will be disbursed to the various member agencies which includes the District. He pointed out that the agreement identifies liabilities are capped at \$50,000 should one member agency fail to fulfill its duty. Mr. McIntyre advised that the agreement has been reviewed by all North Bay Water Reuse Authority member agencies and their legal counsels; and the agreement has been approved by Napa Sanitation, Novato Sanitary District and Las Gallinas Valley Sanitary District.

On motion of Director Petterle, seconded by Director Fraites, the Board unanimously approved the Agreement for Grant Facilitation Services for the North San Pablo Bay Restoration and Reuse project with Sonoma County Water Agency.

AQUEDUCT ENERGY EFFICIENCY PROJECT RELEASE DRAFT EIR AND SCHEDULE PUBLIC HEARING

Mr. McIntyre updated the Board on the Aqueduct Energy Efficiency (AEE) Project and stated that the last update to the Board was in September when the Board authorized the release of the Notice of Preparation for the Draft Environmental Impact Report. He said that Pat Collins and Carrie Lukasic of Winzler & Kelly, who have prepared the Draft EIR, are in attendance and advised that the Board is being asked tonight to release the document for public comment.

Mr. McIntyre stated that the primary goals of the proposed AEE Project are to eliminate energy use associated with the Kastania Pump Station, reduce greenhouse gas emissions and improve water delivery reliability. He said the proposed project will upsize the existing 30-inch pipe to 42-inch and will maintain the aqueduct's current rate of flow without needing the use of the

Kastania Pump Station. Mr. McIntyre informed the Board that the proposed AEE Project will coincide with the Caltrans Marin-Sonoma Narrows project which requires relocation of the District's pipeline; construction is scheduled to commence in summer of 2012. He explained that the existing 30-inch pipe will remain in connector segments (areas not included in the Caltrans project) and a 36-inch parallel pipe adjacent to those connector segments will be installed.

Director Petterle asked Mr. McIntyre to clarify that the new pipe is sized so that the flow will not be increased when Kastania Pump Station is not in operation. Mr. McIntyre responded that the current rate of flow will be maintained and the Kastania Pump Station will no longer be needed to deliver water to North Marin.

Mr. McIntyre introduced Pat Collins of Winzler & Kelly who gave a Power Point presentation on the Draft EIR. She reiterated the summary of the project and its objectives and discussed the project impacts. She stated that most impacts would occur even if the project is not built because the AEE Project is within the footprint of the Caltrans project and all mitigation measures are incorporated into the Caltrans project. Ms. Collins stated that the beneficial impact of the proposed AEE Project is the reduction of greenhouse gas emissions associated with the operation of the Kastania Pump Station.

Director Fraithe inquired if Caltrans will incur the cost of the mitigation measures. Mr. McIntyre responded that once the environmental phase is complete, staff will begin discussions with Caltrans on that subject. He stated that if the District pays any costs associated with the mitigation measures, it will be an incremental cost, not a fifty-fifty cost share. He further stated that from the District's perspective, it should not pay any costs incurred by Caltrans.

Ms. Collins reviewed the project alternatives and stated that the Aqueduct Energy Efficiency Project is the environmentally superior alternative because there are no significant unavoidable impacts, the project is 100% within the Caltrans Marin-Sonoma Narrows project footprint, and it reduces greenhouse gas emissions.

Ms. Collins reviewed the schedule and noted that the public hearing will be held on April 19, 2011, the end of the public review will be May 2 and the final EIR, which will include response to public comment, is expected to be released in summer of 2011.

On motion of Director Petterle and seconded by Director Baker, the Board voted unanimously to authorize staff to release the Draft EIR for public review and set the public hearing for 7:30 p.m. on April 19, 2011 to receive public comments on the Draft EIR.

5-YEAR FINANCIAL PLAN REVIEW AND RATE ADJUSTMENT

David Bentley presented the third review of the Novato Water Five-Year Financial Plan and said there are two parts for discussion: the five-year financial plan and the structure for the rate increase. He stated that the goal at this meeting is for the Board to offer their final input on the five-year financial plan, settle on May 24th as the date for the public rate hearing and for the Board to authorize staff to draft a letter to all customers with details of the rate increase to comply with Proposition 218 and inviting them to the public hearing.

Mr. Bentley stated that the District is facing a projected budget shortfall of \$13M over the next five years due to decrease in water sales and connection fee collection. He presented a PowerPoint presentation that included a twenty-year history of water consumption and equivalent dwelling units of new construction in Novato. He informed the Board that the average consumption for the last twenty years was 3.2 billion gallons (BG) and that the current five-year projection for consumption is estimated at 2.7 BG; the twenty-year average in annual connection fees collected was 265 Equivalent Dwelling Units (EDU), whereas this year 10 EDUs have been collected and 20 EDUs is estimated for next fiscal year. He said that based upon information provided by the City of Novato and County of Marin, the average for the next twenty years is projected at 90 EDUs.

Mr. Bentley stated that staff offered eight recommendations for cost containment and two recommendations for revenue enhancement; however, the revenue enhancement options are not being recommended at this time. He stated that the Board concurred that the first four cost containment options will be considered: defer office renovation and radio read meters projects, reduce "pay go" Capital Improvements Projects expenditures to \$2M per year, reduce Water Conservation rebates by 50% and leave four vacant positions unfilled. He advised that the savings from the cost-containment options are estimated to be \$8.9M over the next five years and will be coordinated into the budget discussions.

Mr. Bentley reviewed the projected new debt for a total of \$16.3M over the next five years to fund the Aqueduct Energy Efficiency Project (\$7M) and Recycled Water Expansion (\$9.3M) which will add \$1.25M to the debt service beginning in FY 13. He provided a twenty-year history of annual debt service and capital improvement project expenditures. Mr. Bentley said that most District projects were funded internally during the last twenty years with the exception of the Stafford Treatment Plant Rehabilitation and initial (StoneTree) Recycled Water Project. He said the reduction in water conservation rebates will save \$100,000 per year and he advised that the staffing level, with 2.4 full-time equivalent employees per 1,000 services, is at its lowest in twenty years.

Mr. Bentley turned his presentation to the rate increase and rate structure recommendation. He said that an 11% revenue increase is required; the bi-monthly service charge increase is proposed to phase in over the next three years beginning with \$20 in 2011, then increase to \$25 in 2012 and \$30 in 2013. He said that after three years, 25% of District revenue will be generated resulting in the District being less susceptible to fluctuations in water sales. He said the corresponding commodity rate increase needed to generate the 11% revenue would be 6%, 7%, and 8% over the next three years.

Mr. Bentley explained staff's recommendation to simplify the rate structure by consolidating Zone D and Outside Rates to Zone C, thus reducing the number of commodity rates from 26 to 16.

The Board discussed the rate increase and the impacts that higher fixed rates will have on low water users. Mr. Bentley said that there will be an opportunity for customers to see the impact the proposed new rate will have on their bill by accessing a special calculation tool on the District website.

Director Rodoni stated that he was not pleased to have the fixed rate increase as much as staff recommends because it will impact low-income and senior customers. He asked if there would be consideration of a hardship policy similar to Marin Municipal Water District. Director Baker said that such a policy would be contradictory to the District's history of not giving special consideration to specific groups. Director Schoonover said that times are different and if it's the right thing to do now, it doesn't matter what was done before. Director Petterle said that he would support a hardship policy. Director Schoonover asked staff if they could provide a plan for the Board to consider.

Mr. DeGabriele stated that a hardship policy is difficult to administer and noted there is information included with the Board's agenda packet addressing the Board's concerns on this subject. He said that staff does not recommend a credit or guaranteed volume with the bimonthly service charge. He stated that Marin Municipal has two programs - one for income hardship and one for medical hardship; and he stated that, from his perspective, both can be easily abused.

Director Rodoni commented that the hardship consideration could be triggered by low water use. He further commented that in regards to staff's reliance on development estimates for budget projections, he clarified his previously stated opinion that it was a poor tool to use as it is too variable and can skew the budget. Mr. Bentley responded that development estimates are an integral part of District source of project funding.

Mr. Grundstrom stated that not spending money on office renovation, radio read meters, etc. is not saving money and that the only real savings is the reduction in water conservation rebates. He cautioned that raising rates will not solve the budget problems.

Mr. Bentley clarified staff's three recommendations for the Board's consideration. Director Baker voiced his opposition to the proposed consolidation of Zones C and D commodity rate structure.

On motion of Director Rodoni, seconded by Director Petterle and unanimously carried, the Board directed staff to incorporate the four Cost Reduction Measures (defer Office Renovation & Radio Read Meters; reduce "Pay Go" Capital Improvements Project expenditures to \$2M/year; reduce Water Conservation Rebates by 50%; and leave four vacant positions unfilled into the District Financial Plan and the FY 11/12 Budget; and directed staff to add a message to Novato area water bills inviting customers to a Water Rate Hearing to be held on May 24, 2011.

On motion of Director Rodoni and seconded by Director Petterle, the Board directed staff to draft a Proposition 218 letter for Board consideration at its April 5th meeting advising customers of the proposed plan to increase the Bimonthly Service Charge effective June 1 of each of the next three years, and advising customers of the proposed plan to simplify and consolidate the rate structure, by the following vote:

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

MISCELLANEOUS

The Board received the following miscellaneous information: Disbursements.

Mr. DeGabriele advised that the Water Advisory Committee meeting notes have been distributed to Board members tonight and he provided a brief summary of the meeting. He said that the WAC approved the SCWA FY 11/12 budget and there was a lengthy conversation on the regional compliance with SBx7-7.

The Board also received the following news articles: 5 Percent Increase in Water Rate Approved (SCWA); Wet Weather Good for Summer Water Supply in Sonoma County; Eight Sonoma County Officials Gather in Washington, D.C.; Ralph Grossi Honored by Farm Bureau, Sapping the Well.

ADJOURNMENT

President Schoonover adjourned the meeting at 8:59 p.m.

Submitted by

Renee Roberts
District Secretary