

SPECIAL BOARD OF DIRECTORS MEETING - May 13, 2003

VALLEY OF THE MOON WATER DISTRICT  
SPECIAL MEETING AGENDA  
May 13, 2003

A special meeting of the Board of Directors of the Valley of the Moon Water District was held on Tuesday, May 13, 2003, in the Board Chambers of the District Office at 19039 Bay Street, El Verano, California.

1. CALL TO ORDER - PLEDGE OF ALLEGIANCE - ROLL CALL

President Ron Prushko called the meeting to order at 6:30 P.M. Roll Call by Deputy Secretary Shari Walk noted the following present:

Directors Present:	Mark Bramfitt Ed Kenny Sanford Smith Michael Woods Ron Prushko
Directors Absent:	None
District Personnel:	Shari Walk, Office Supervisor
General Manager:	Lee Harry
Board Secretary:	Shari Walk
Public Present:	Theodore Chenoweth, Lee Chocalas, Allan Highstreet, Steve Perry, and Sandi Hansen, Sonoma Index-Tribune

2. PUBLIC COMMENTS

There were no public comments.

3. CONSENT CALENDAR

- A. Receive and Approve Minutes of April 15, 2003
- B. Cancel May 20, 2003 Board Meeting

Motion by Director Bramfitt, seconded by Director Smith and carried unanimously by a voice vote to adopt the Consent Calendar, as shown.

4. PUBLIC PRESENTATION

There was no Public Presentation.

5. OPERATIONAL & COMMITTEE REPORTS

A. Approve Current Financial Reports for March 2003

In response to Director Kenny, Office Supervisor Shari Walk advised that the Practical Plumbing Handbooks in Spanish had been acquired for members of the public.

Motion by Director Bramfitt, seconded by Director Smith and carried unanimously by a roll call vote to approve the monthly Financial Reports & Disbursements for the month of March 2003 in the amount of \$322,867.80.

B. Review/Comment on Current District Projects and Significant O & M Issues

General Manager Lee Harry reported that vandals had broken into the Bolli Tank site, had accessed the site by bicycle and the Sheriff's Department was investigating. He stated that there were issues of access in that one of the large oak trees left on the site to screen the site had allowed vandals to trespass on the property. The vandals had climbed to the top of the tank and had cut graffiti into the tank.

While the cost would ultimately be submitted to the JPIA for an insurance claim, because the VOMWD would be required to conduct a vulnerability assessment for the Environmental Protection Agency (EPA) anyway for security purposes, Mr. Harry stated that he would like to look into some measures to ensure the integrity of the VOMWD and the protection of its water supply.

Mr. Harry stated that a cosmetic overlay would be prepared for the tank and the roof of the tank, which had also been damaged, to avoid corrosion in the immediate future, with a review by a consultant to conduct a complete vulnerability assessment of the VOMWD. Before going through the expense of repairing the damage that had been estimated at \$30,000, a cosmetic repair was preferred along with a vulnerability study throughout the VOMWD.

Operations and Maintenance Supervisor Paul Gradolph explained that the Bolli Tank was on two undeveloped lots. One of the lots would be developed within the next six months, which should help secure the area.

Mr. Harry reiterated that rollers and the same exterior paint would be used to protect the tank in the interim and a contractor's estimate would not be pursued pending an evaluation of other issues. He also explained that an arborist would be consulted to determine whether or not a limb of the oak tree could be cut to deter access into the tank site. He added that the tree itself would also have to be evaluated.

Director Woods sought a protection of the tree as much as possible, particularly since it was a mitigation measure to screen the site. He preferred to evaluate what could be done to the fence to protect the site.

Mr. Gradolph presented his summary review of current district projects and significant operations and maintenance issues for April 2003 related to the following:

- Project #2855 - Glen Ellen Storage Tank: The process placed on hold pending the result of the lawsuit recently filed protesting the Mitigated Negative Declaration that had been filed on the project.
- Project #2862 - Sobre Vista Tank Replacement: The tank had been completed and was on line as of

May 2, 2003.

- Project #2863 – Sobre Vista Water Main Replacement: Bids had been opened on May 1 and Winzler and Kelly were analyzing the bid results and would seek Board approval at its June 3 meeting.
- Project #2864 - Telemetry System Phase Three: The third and final phase of the SCADA system had been completed.
- Project #2865 – Future Production Well at Arnold Drive and Felder Road: The property acquisition progress for the project was scheduled for discussion in Closed Session on the current agenda.
- Project #2866 – Storage Reservoir Painting Phase 1: The project had been completed and a Notice of Completion would have to be filed.
- Project #2869 - Highway 12 Main Relocation: Construction had commenced on April 17 and then delayed due to the intrusion of ground water. A requested extension from Caltrans would now allow until June 15 to complete work.
- Project #2872 – State Developmental Center Emergency Intertie. The construction of the intertie was ongoing and had been proceeding well.

C. Water Source Report

Mr. Gradolph reported, when asked, that the remainder of the wells would be brought on line later in the month since the wells would be used to supplement the water supply with the increased summer demand.

6. RECEIVE & FILE PRESIDENT'S AND DIRECTOR'S REPORTS OR COMMENTS

President Prushko reported that he had attended the Association of California Water Association (ACWA) Conference at South Shore and had attended a number of sessions on the State Budget crises, bullet proofing Environmental Impact Reports (EIRs) and on the energy crises. He described the conference as rewarding, interesting and productive.

Director Kenny commented that he had to cancel his reservation at the JPIA Conference. He expressed his disappointment at having to miss the conference.

Director Bramfitt reported that he had attended an ACWA session in Napa recently. He stated that the morning session was interesting but he questioned its applicability to the VOMWD. The session had discussed legislation where water districts would provide a written guarantee of water supply for housing units of 500 or more. He therefore questioned the applicability of that legislation to the Valley. He noted that water districts that met that requirement would have to meet it with real water supplies. He stated that the afternoon session spoke to Local Agency Formation Commissions (LAFCOs) that had been charged through State legislation for conducting audits of all local agencies, cities and special districts with an eye toward determining whether or not those districts should be combined. As a result, he stated that at some point the Sonoma County LAFCO would audit the VOMWD.

General Manager Harry stated with respect to annexation requests that the local LAFCO had indicated that it would conduct a Municipal Service Review (MSR) of the VOMWD, as required, expected at the beginning of the next fiscal year. He also noted that the VOMWD's LAFCO fees would be doubling. He

agreed that the afternoon session at the ACWA Conference had been very beneficial and that many things discussed at that time would apply to the VOMWD.

President Prushko referred to a potential State taking of unencumbered VOMWD funds.

Mr. Harry advised that all of the VOMWD's funds had been invested in the State Local Agency Investment Funds (LAIF). He reported that he had received a letter from the State Treasurer, which he read at this time, who had indicated that the funds in the LAIF would be safe and secure from taking. He noted that the Board might consider diversifying its investments to better protect them. He suggested that the item be agendaized for further discussion to consider how else to protect the VOMWD's investments as provided by law since the VOMWD did not want to see its investments frozen or taken without interest. He sought direction from the Board as a future agenda item.

7. GENERAL MANAGER'S AND DISTRICT COUNSEL'S REPORTS

A. Report on WAC Meeting of May 5, 2003

General Manager Harry explained that the primary discussion at the Water Advisory Committee (WAC) meeting on May 5 had involved representatives of the County Permit Resources Management Department (PRMD) who had been present to hear concerns related to the proposed revisions to the Water Resources element of the County General Plan. He noted that the VOMWD would have a significant issue in that regard and he would provide a draft letter to the Board for review at another meeting, to be forwarded to the WAC.

B. Report on ACWA Meeting May 7 through May 9, 2003

Mr. Harry stated that he had also attended the ACWA Conference. With respect to vulnerability assessments, he had made a number of contacts and explained that there were a number of things the VOMWD could do to protect its system. He agreed with the earlier comments that the sessions had been interesting. He also noted that the VOMWD, because of its size, had until June 2004 to prepare its vulnerability assessment.

President Prushko commented that his inquiry to the Sonoma County Water Agency (SCWA) had noted that the VOMWD would not be providing the water to the proposed Indian casino, nor would the Petaluma or North Marin Water agencies.

8. OLD/NEW BUSINESS

A. Discuss/Approve: Agreement for Audit Services for Fiscal Year 2002-2003 by Larry D. Johnson

General Manager Harry stated that because of new GASB 34 requirements, there would be additional auditing efforts that would have to be implemented in the district. While the timing of the implementation of those new auditing requirements in the VOMWD were currently unknown, Mr. Johnson had agreed to accept a one year agreement at his present rate, which would allow Mr. Johnson to inform the VOMWD of the increased costs required in future years. He recommended approval of the agreement for audit services for FY 2002-2003 by Larry Johnson.

Ms. Walk reported that Mr. Johnson had estimated that the audit costs would be approximately \$1,000

extra, which would not be required until next year, and which could be addressed through a Request for Proposal (RFP).

Director Woods stated that he had been well satisfied with Mr. Johnson's work and was happy with a one year contract, although he questioned whether or not there was any recommended standard for public agencies to switch auditors after a number of years.

Mr. Harry agreed that as a small water district, the VOMWD often became very comfortable with those working for and with the District. He expressed a willingness to discuss that issue with other agencies to see what was done elsewhere, and to consider other options at the conclusion of the one-year agreement.

On motion by Director Woods, seconded by Director Kenny and carried unanimously by a roll call vote to approve an agreement to hire Larry D. Johnson to perform the annual audit for the Valley of the Moon Water District for the fiscal year ending June 30, 2003, and authorized the President of the Board to sign the agreement.

B. Discuss/Direct Staff: Final Report - District Rate Study

Mr. Harry referred to the staff report on the item and noted that in conjunction with the Water Rate Study a workshop had been proposed on the budget proposals. With the final preparation of the budget, it had been found that there was a need for some additional revenue than what had been estimated in the draft report.

Allan Highstreet, Vice President and Senior Economist of the firm of CH2MHill, who had prepared the Rate Study explained that the changes from the draft to the final Rate Study weren't huge although there would be a \$100,000 shortfall. Attention to conservation and other issues had been worked through to address that shortfall. The increased water rates that had been projected at \$2.83 would now be changed to \$2.86.

Another change identified by Mr. Highstreet related to the rates charged by others in the area and had been included on the last page of the appendix of the Rate Study which identified the types of tiered structures utilized by other communities, the type of increases involved, and additional information to help the Board consider what was best for the VOMWD.

Mr. Harry noted with respect to the review of the draft and the final report, that he and Ms. Walk had considered worst case scenarios. He commented that if pursuing a three-tiered system, the VOMWD would be implementing a real conservation system and the upper tiered rate of over \$5.00 per 1,000 gallons billed would significantly affect 40 to 50 of the VOMWD's big water user customers. He referenced the high end users in the VOMWD and noted that one customer used 477 billing units every two months. Under the current rate system, that would equate to \$1,335 for two months for water. With a standard normal cost of living commodity rate increase, that bill would be increased to \$1,390. With the implementation of the tiered system, the bill would be \$2,455 every two months, an increase of over \$1,000.

While that would not affect a great number of VOMWD customers, Mr. Harry wanted the Board to be aware of potential controversy. When the VOMWD raised the basic service fee by a significant amount a few years ago, a number of the low water users had protested the rate increases. He emphasized the need to conduct appropriate and comprehensive outreach to the public to advise of the proposal.

Mr. Harry added that if pursuing a three-tiered rate, it would take two years to get full information regarding summertime use if implementation was delayed until November.

If implementing the proposal in July, significant rate shock would result given the peak use during the summer months. Mr. Harry suggested that reducing the increase for the third rate would not promote conservation.

Mr. Highstreet referred to the conservation-based rate and noted that there were steep increases in the tiers in that rate for some while others were minor. He noted that minor increases would make little difference in conservation and a conservation-based rate should be put in place with a long-term objective of trying to reduce water use to avoid having to purchase additional supplies in the future. Without a tiered rate, there would be little revenue difference and little difference to the users with little impact to water use. If that was the case, he suggested a straight across-the-board increase should be considered. He agreed that would be a policy decision to be made by the Board in that with no disincentive at the top end there would be no impact.

Director Smith thanked Mr. Highstreet for the work and for showing the effects of the various options, as well as for identifying what other water districts were doing, particularly compared with the City of Sonoma, which was comparable to the VOMWD. He referred to Davis and inquired how they had been able to achieve such low rates since their rates were so much lower than others used for comparison purposes.

Mr. Highstreet explained that Davis used groundwater where little infrastructure would be required.

Director Woods commented that the rate to the high volume user in the third tier, would be 15 to 20 percent higher than the City of Sonoma's rate. He inquired how that increase had been achieved.

In response, Mr. Highstreet stated that the rate had been based on water use based on the tiers previously established and based on 50 percent increases for each block. He noted that all water in the third tier would be at the higher rate.

As to whether or not any modeling had been done to identify what type of conservation might be possible with tiered rates that could identify a delay in the need to obtain more water supplies in response to Director Woods, Mr. Highstreet stated that most of the price elasticity studies were somewhat dated. What had been found on some of the more recent studies was that the data would have to be considered by socio-economic groups.

Mr. Highstreet explained that most information received did not suggest that a small increase would make a difference. He noted that a calculation of typical bills would have to be pursued to see how those bills would change. He characterized the situation as somewhat experimental and only with implementation would there be some idea of the response. He added that if the rates were not as steep as proposed there would be no change.

Mr. Highstreet recommended that if the Board did not feel comfortable with the large increase impacting the VOMWD's largest 40 to 50 water users, which users were currently paying for every unit of water used, it should keep in mind that the impact would come later when additional water supplies would have to be purchased when everyone would have to share in the cost of those additional supplies.

Mr. Harry explained, when asked, that the high end use of the 40 or 50 customers earlier referenced was during the summer months, which indicated that a majority of those users were using that extra water for irrigation purposes.

Director Woods questioned what type of increase the 40 to 50 highest users might expect in his/her bill.

Mr. Harry used an example of a one-inch meter and stated that if a ratepayer used 300 units every two months, the current bi-monthly bill was \$850. Under a regular increase it would be \$875 and under a block increase it would be approximately \$1,500 which was significantly higher than a uniform commodity rate increase would be.

President Prushko inquired whether or not the current bills could identify the potential rates for a tiered system, to which Ms. Walk stated that different bills would have to be produced.

Given those issues and the need to reprogram the water bills, Director Bramfitt inquired whether or not staff was capable of implementing the rate increase in July.

Mr. Harry commented that he was leaning more and more to a November implementation, although it would take an additional year to acquire full tracking information on revenue and something else would have to be done in the interim to make up the shortfall. If introduced in July, he stated that the Board would have to move quickly and a second meeting in June would have to be scheduled for a public hearing, with implementation on July 1, 2003.

While he had no problem with the average rates that would have been produced by a tiered rate structure from the rates identified at the last meeting, Director Woods did have a concern with higher rates that would be implemented in July and that could represent increases of hundreds of dollars a month. He emphasized the need for an educational program, a phase-in approach or a pilot project to better inform the public of the potential rates.

Mr. Harry explained that 65 customers had been identified where large landscaping surveys would be conducted from money budgeted for the next fiscal year. The problem would be to implement a program prior to those landscaping surveys. He recommended the implementation of the commodity rate increase for all users until January 1, 2004 to then allow the Board some time to conduct public outreach programs before the full proposal became effective.

As a counterpoint, Director Bramfitt stated that 90 percent of the VOMWD's customers would receive lower bills. He stated that there was nothing like a price signal to convince people to use less water, which would benefit all customers. He expressed his appreciation for a phased-in educational approach, although he wanted to agree on some schedule to implement the conservation program. As long as the outreach was phased in, he would support such a proposal with significant outreach. As another option he suggested that the increase could all be applied to the higher users, to then pursue block rates as the second phase. He otherwise acknowledged that staff would have to prepare more calculations to be able to do that.

Mr. Harry suggested another alternative to increase the VOMWD's basic service fee by \$1 in July instead of the \$.25 increase recommended by the Rate Study, which would generate new revenues. With that, the commodity rate increase would be deferred to January 1, 2004, at which time the block rates could become effective. He suggested that would allow the basic service fee to better meet the fixed costs of the VOMWD, particularly since the VOMWD's basic service fee was currently low.

Director Bramfitt sought the fixed rate increase instead of a greater increase in the basic service fee, and in January to inform the community that the VOMWD would institute tiered rates, to be imposed in the middle of winter to ensure that those rates would be in place by the summer season.

President Prushko concurred and stated that the Rate Study supported that decision.

Mr. Harry advised the Board that the Rate Study would be required with or without the implementation of the rate consistent with the terms of the Temporary Impairment Memorandum of Understanding (MOU).

Director Woods noted the consensus of the Board to pursue a tiered rate system, although there were concerns for the implementation and timing of that decision.

Director Smith supported the current recommendation and stated that while some ratepayers would be upset, he emphasized that the Board was attempting to pursue conservation measures. Whether or not that would become effective in July, November or January, he suggested it made little difference since the ratepayer would still face that increase at some point in the future if it was put off.

Director Kenny supported a pursuit of the tiered rate proposal now.

Director Woods advised that if the tiered system was to be implemented by July 1, he would vote against that proposal.

Director Bramfitt had a strong sense that the higher end users were those who needed to see the price signal. Given that July was just weeks away, he questioned whether or not that was the most politic time to impose those rates. He supported an interim increase and a phased-in educational approach of the public with the goal of imposing tiered rates in January of next year.

President Prushko concurred with that recommendation and suggested that an incremental increase should be considered for July, to then educate the public of how the tiered rate would work and the effect it would have on the higher end water users.

Mr. Harry explained that letters could be sent to the 40 to 50 customers that would be most affected. He stated that the immediate problem was a balanced budget, to be implemented by July 1, the new fiscal year. He expressed his appreciation for the Rate Study and characterized it as an excellent report, offering clear direction. He sought direction from the Board to return with a final budget workshop on June 3, to then schedule a public hearing for the second meeting in June.

Director Bramfitt supported Alternative 1 for all customer classes commencing in July 2003 and putting customers, particularly those in the high use categories, on notice that the Board would implement Alternative 2 by mid-2004. He suggested that would offer the necessary revenue through the end of the year to then allow the Board to consider serious tiered rates.

In response to Director Woods, Mr. Harry suggested that the phased approach should come close to meeting the needs of the VOMWD to the mid-budget year. When asked by Director Bramfitt whether or not a public hearing could be held to designate one rate on July 1, 2003 with another rate effective September 1, 2003, he stated that one could be a standard water rate increase with an announcement that a tiered water system would be implemented on January 1, 2004 for single family residential homes.

Motion by Director Woods, seconded by Director Kenny and carried unanimously by a roll call vote to direct staff to notice a public hearing for the June 3, 2003 meeting with the intent to adopt a water rate increase based on Alternative 1 of the Rate Study to be effective July 1, 2003, and also to implement the 3 tiered rate system for single family residential units recommended as Alternative 2 of the Rate Study



prepared by the consultants effective January 1, 2004.

Director Bramfitt stated that he would be very interested to hear from the public on the issue.

C. Workshop Preliminary Operations and Maintenance & Capital Improvement  
Projects Budgets for Fiscal Year 2003-04

Mr. Harry commended Ms. Walk for a job well done on developing the VOMWD's budgetary needs for a budget that would not include any additional increased levels of service, but with projected increased costs of \$381,753 due to higher fees for wholesale water, expanded cost of living increases, increased costs for worker's compensation and medical insurance, increased interest costs, and negotiated salary increases.

To address that increase, Mr. Harry stated that the operating or capital budgets could be cut by the increased amount, the revenues could be increased by that amount, or a combination of the two could be utilized to fund the \$381,753 shortfall. It had been proposed that a portion of the funds could be recovered through cost of living increases through the water rates, and to cover a portion through a \$150,000 reduction to the Capital Improvement Program (CIP). He noted that a \$150,000 reduction of the CIP budget would leave \$650,000, which would offer sufficient funds to accommodate the projects identified for the next fiscal year.

Director Bramfitt verified that the \$381,753 need had been reduced by \$150,000 from the CIP budget.

Director Woods clarified that the rate structure just discussed, if implemented, would make up the difference.

When asked whether or not a \$150,000 cut in the CIP would create a concern with operations, Mr. Gradolph suggested that the VOMWD would be fine, particularly given the fact that historically some of the projects overlapped on budget years.

Ms. Walk stated that the consultant had advised that there would be a shortfall in the first year and somewhat in the second, although the increases would accumulate afterwards to be able to add to the capital.

Mr. Harry added with respect to the five year CIP that some projects, such as the Hill Road Tank Project, had been moved out. In addition, the funds budgeted for the well site at Felder Road would be almost fully reimbursed by the SCWA under the Local Projects Program. He reiterated that the budget was a passthrough with no new operating staff, no new programs, and no new administration staff.

Director Bramfitt described the proposed budget as well done. He explained that the wholesale water price was a passthrough item and the Board could do nothing about that extra cost. He added that he was comfortable with what had been proposed.

Director Woods verified that the 5.3 percent increase in the cost of water from the SCWA had been factored into the budget, which Mr. Harry noted translated to a 2 plus percent increase in the water rates.

Director Woods emphasized therefore that the increased cost of water had greatly influenced the need for the rate increase.

Motion by Director Woods, seconded by Director Bramfitt and carried unanimously by a voice vote to direct staff to prepare the Final Budget for Fiscal Year 2003/2004 and directed staff to submit a

resolution adopting the budget for action by the Board at the meeting on June 3, 2003.

President Prushko adjourned into Closed Session at 7:50 P.M.

9. CLOSED SESSION

- A. Conference with Real Property Negotiators Pursuant to Government Code Section 54956.8; Negotiate Price and Terms of Payment. Agency Negotiator: Lee J. Harry; Negotiating Parties: N/A. District Declared Surplus Properties: APN 056-583-017, Alberca Road, and proposed Well Site at Arnold Drive and Felder Road. Negotiate Terms. Agency Easement 1400 Sobre Vista Drive APN 133-070-050, Agency Negotiator Lee J. Harry, Negotiating Party Mr. Franco Vicino
- B. Public Employee Performance Evaluation Pursuant to Government Code Section 54957 - General Manager

10. RECONVENE IN OPEN SESSION

President Prushko reconvened into open session at 8:14 P.M. and reported that no action had been taken in Closed Session.

11. REQUEST FOR FUTURE AGENDA ITEMS

A request from Mike Cornwall for annexation to the VOMWD was to be agendized for discussion.

12. ADJOURNMENT

Motion by Director Bramfitt, seconded by Director Kenny and carried unanimously to adjourn the meeting at 8:17 P.M. The next scheduled meeting is a Regular Meeting on June 3, 2003 at 6:30 P.M.

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Shari Walk, Deputy Board Secretary