

REDWOOD VALLEY COUNTY WATER DISTRICT

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MINUTES

Continued Regular Meeting
Board of Directors
Thursday, September 3, 2009

Directors Present: Donald E. Butow, Hal Voegel, Granville Pool, Jeanette Hallman,
Merle Reuser

Directors Absent: None

Staff Present: General Manager Bill Koehler
Office Manager/Secretary to Board of Directors, Linda Groth

Members of the Public: Roy Beck, Will Carson, Jack Spilman

CALL TO ORDER: 7:02 p. m. by President, Board of Directors, Donald E. Butow.

1. ROLL CALL.

Granville Pool, Director
Hal Voegel, Vice-President
Merle Reuser, Director
Jeanette Hallman, Director
Donald E. Butow, President

2. HEARING OF COMMENTS OR QUESTIONS FROM THE ATTENDING PUBLIC.

Nothing at this time.

3. CONSIDER HEARING OF URGENT ITEMS RECEIVED SINCE THE AGENDA WAS POSTED.

a. General Manager Koehler presented an urgent item just received today. The County Planning Department is going to the September 17, 2009 County Planning Commission Meeting with their request to implement a stricter well-development policy for inland property applicants, and hoping to make the inland well-development policy conform more closely to the standards of the coastal well-development guidelines. The inland policy currently does not have the stricter guidelines in effect. The Planning Department is asking RVCWD to support this effort.

MOTION: Hear the urgent matter as stated.

Pool/Hallman Discussion CARRIED
Ayes: Pool, Hallman, Reuser, Voegel, Butow
Noes: None
Absent: None
Abstain: None

General Manager Koehler mentioned the 4-unit minor-subdivision in Redwood Valley that fronts on Road D. The developers are proposing another 4-unit subdivision in a continuation of that same property, which would end with frontage on Road E. It needs to be determined if sufficient water is available for the project. The Planning Department, the Mendocino County Water Agency and also the Department of Environmental Health have expressed concern about how the already existing wells in the area would be impacted by eight (8) new wells. And they don't want to limit their concerns to the Redwood Valley project, but to include all inland well development projects

During discussion, the Directors reviewed the current inland requirements and agreed to the soundness of this effort. If the studies were conducted with stricter guidelines such as the standards stated in the Coastal Groundwater Development guidelines, each new well would be subject to a hydrological study to address potential impacts to existing wells and to prove sufficient water is available for the project. The studies would include 90-day and 180-day dry weather condition drawdown assessments at minimum pumping rates of 0.5 and 1.0 gallons per minute.

MOTION: Support the County efforts to regulate water development in inland subdivisions by conducting a hydrological study of impacts to existing wells and to prove sufficient water is available to the project.

Voegel/Reuser Discussion CARRIED

AYES: Voegel, Reuser, Pool, Hallman, Butow

NOES: None

ABSENT: None

ABSTAIN: None

General Manager Koehler will attend the Hearing in Ukiah on September 17, 2009 and will let the Planning Department know that the R.V. Board of Directors does support their efforts to make the inland well-development policy conform to a stricter well-development policy.

b. On another Urgent Item topic, General Manager Koehler asked the Directors to consider authorizing a discussion to approve the contract with Rau & Associates in order to comply with the requirements in the letter from the State Water Quality Control Board regarding mitigation of the damage caused by the spill. He said the SWQCB had the matter in their lap for two months, and the District received a letter from the SWQCB just this past Monday, August 31st. It states that the District only has until the 15th of September to comply with the engineering portion and until October 31st to comply with the mitigation.

MOTION: Hear this urgent item as stated.

Pool/Voegel Discussion CARRIED

AYES: Pool, Voegel, Hallman, Reuser, Butow

NOES: None

ABSENT: None

ABSTAIN: None

General Manager Koehler said he received the hard copy of the letter of this morning. Essentially both Fish and Game, and the Regional Water Quality Control Board have elected to dump this in the lap of the District. Both agencies say verbally or in writing that they did so because they can't figure out whose fault it was, but they decided that since Redwood is the owner, it is up to Redwood. General Manager Koehler has been in contact with both the District insurance carrier and District counsel. Insurance will cover everything but the fines. There are

two areas in which we could receive fines; one is for the original incident and the second would occur if we don't comply with the Order which requires engineering by the 15th of this month. General Manager Koehler met with Rau & Associates earlier this week, and together they walked the project area. Today he received the Scope of Work from Rau & Associates; it is not to exceed \$30,000 for the initial project description, the planning, topography, and surveying, etc. They feel pretty confident they can have it done by the 15th but they have asked the District to apply for a 7-day extension and that request has been submitted. General Manager Koehler is asking the Board of Directors to authorize Rau & Associates to do this work, not to exceed the \$30,000, and for a Motion naming the authorized party to sign the contract. Director Voege asked what the District's proposed budget is for this matter and GM Koehler said it is \$27,000 but there are some other related items he needs their assistance with, such as right-of-entry permits (there are 8 different land owners involved). Director Voege wondered if it made sense to make this for \$30,000 +, to cover. GM Koehler clarified that the Scope of Work has items in it that add up to about \$27,500 and it also has language in there that, if they were asked to do other items, they would come forth with separate billings for the other items. Director Voege said it is his sense to cover it all at once. Directors Butow and Pool agreed. General Manager Koehler and Director Reuser clarified that Rau cannot assign a dollar amount to the other items yet because they don't know what will come up. Director Pool suggested a Motion authorizing the Board President to sign the contract, with authority to proceed within the scope of this discussion.

MOTION: Authorize Board President Butow to sign the contract relevant to the engineering and remediation of the spill, with authority to proceed within the scope of this discussion.

Voege/Pool Discussion

Member of the public Jack Spilman asked if the General Manager collected only one quote. Answer: Yes. Director Pool said that the response time is so close, that it was best to get the one quote from the company that we knew could do the work; and if we had more time, we surely would have preferred to get multiple quotes. Director Voege agreed. General Manager Koehler said that, that was exactly his thinking: he called Rau & Associates and his first question was, Do you have somebody on board who is an erosion and sediment specialist, and who is familiar and comfortable with working with the Regional Water Quality Control Board? and their answer was: Yes. The employee who has completed this training will be working directly under the supervision of George Rau. General Manager Koehler added that normally he would put out rfq's and rfp's but given the time constraints and the fact that a penalty clause kicks in on September 15th, which comes out of our pocket, this was the decision. Director Hallman said she realizes it was just dumped on the General Manager, and the deadline is coming up, but she has not had time to read the material and does not feel prepared to vote AYE on the subject. A vote was taken.

MOTION CARRIED

AYES: Voege, Pool, Reuser, Butow

NOES: Hallman

ABSENT: None

ABSTAIN: None

4. DIRECTORS AND STAFF REPORTS AND DISCUSSION OF NON-ACTION TOPICS.
(Agenda Item No. 6)

a. Director Voege informed the Board that he is writing a letter to the Editor and if anyone wants to look at it and offer any suggestions before it is mailed on Monday, to let him know. Director Butow responded that in the past it has been suggested that a Director should indicate the letter is his personal opinion and not necessarily the opinion of the Board of Directors of the District.

5. GENERAL MANAGER'S REPORT, AUGUST 2009 CONTINUED. (Agenda Item No. 8)

Director Hallman asked if the Board could hear Item D before hearing the other items. It has come to her attention that a fine of a minimum of \$5,000 per day per annexed area, up to \$10,000 per day per annexed area could be imposed if the State actually decides to take RVCWD to task for serving water outside the authorized Place of Use. The August 19, 2009 letter brings to mind that she has been expressing a concern about this for the four years she has been on the Board of Directors. Director Butow said it has been a concern for a number of years, especially since the District has replied to the State numerous times, and has submitted all the maps and everything else. Director Hallman said she specifically wants to know what the District will do if the State actually comes here and says, you shut that water off now. Are we going to shut it off? Director Voege said we would shut it off. General Manager Koehler said he wouldn't necessarily jump to that answer, and in deference to Director Hallman's concern, the items in the General Manager's Report with the exception of Item D are arranged in this order to assist with getting through them rather quickly. And then we can focus on Items D and F.

A. Truck Purchase.

The Ford Motor Company has informed us that there are no Ranger Trucks to sell under the terms of a municipal lease/purchase plan. Even though they had already provided the District with a quote, they phoned back to say there are no trucks available.

B. Pinecrest Well.

The Ukiah Unified School Board attorney has been directed to prepare an Agreement regarding access to the Pinecrest property in order to test the well. The Agreement has been presented, but there are two changes: our agency name is changed from Redwood, to Redwood Valley County Water District, and, the signature line is for the President of the Board of Directors, not President of the Board of Trustees.

Upon review of the Agreement, a Motion was made.

MOTION: Approve the contract with the signature of Board President Butow.

Hallman/Voege Discussion CARRIED

AYES: Hallman, Voege, Pool, Reuser, Butow

NOES: None

ABSENT: None

ABSTAIN: None

C. Letter from Department of Fish and Game.

The August 17, 2009 letter from Fish and Game presented the Recovery Costs for the Russian River Sediment Pollution Incident of June 11, 2009 in the amount of \$3,267.60, which has since been paid.

D. Letter from the State Board.

The August 19, 2009 letter from the State Water Resources Control Board discusses their opinion of District options to obtain a secure water source for the four annexed areas currently served but outside the authorized Place of Use. GM Koehler said he immediately faxed a copy of the August 19th letter to Sean White at the FCD. Sean has been working for a year to prove that the FCD actually uses their 8,000 ac-ft.

General Manager Koehler reported the following: he responded to Mr. Stretars by letter and he also spoke with Mr. Stretars for an hour by phone. It seems Mr. Stretars is apparently under some pressure to get this resolved because apparently there are at least a couple of very vocal people in Redwood Valley who are calling the State Board constantly, saying, make Redwood Valley tow the line on these annexation issues. He added that judging by the rumors he is hearing, the folks that are calling and causing agitation at the State Board don't really want the annexations resolved, they want the annexations severed. So Mr. Stretars had three solutions for annexation, the first of which is to combine the Redwood Valley Filings with the Flood Control District Filings. GM Koehler said he told Mr. Stretars over and over again that he doesn't feel it's appropriate for this District to tie itself to their coattails right now, because it's in the best interest of each agency that each of our processees happen first, then we try to come together. I said, But if you want to tie us to them now, and anybody objects, all we're going to do is slow down the Flood Control District, we're going to hang them up. So then Mr. Stretars said, Well, o.k. Then he said, Why don't you go drill a well; why don't you chase the Jack Cox well further. And I said, Well you're the guy that wrote me the letter that said "I'm going to nail you to the wall if you can't prove this is percolated groundwater."

I reminded him that the Cox well is the same depth as Forsythe Creek and it is located 50 feet from Forsythe Creek. Mr. Stretars finally agreed that the chances of Redwood Valley finding pure, percolated groundwater are slim-to-none. So then Mr. Stretars said, Why don't you go to Ukiah and buy water from Ukiah?

As an aside, GM Koehler told the Board of Directors that he has filed an application for grant monies to pay for drilling another well, but he is not hopeful in getting that.

General Manager Koehler concluded, So this is where we are with the State Board. My gut feeling is that if they come in here and say they are going to fine us, what we would be obligated to do, what I would do, is turn around and go right up to the Rancheria and the other annexed areas and say, we are going to turn you off. The three annexations that would be affected would be the Fetzer property, the Gabrielli property and the Road I Rancheria property. The Weibel and Garzini annexations are not really in our control because they are part of the Flood Control District. Director Reuser asked if we had notified the Rancheria of this letter and GM Koehler said he hasn't copied this one; although he did provide them with a copy of a previous State letter in the past, and they went into panic mode. Director Reuser asked that they be given a copy of this letter also. Director Hallman said that eventually, the State is going to do something. GM Koehler said, Maybe, but I don't think they will. Director Reuser asked, How many of these agencies have to communicate before they come to give us a fine. GM Koehler answered, First they have to send a pink notice saying they are going to fine us. He added, And the reason I'm saying 'maybe', is because of a far worse scenario that has been going on in the Monterey Peninsula for far longer, and the State is still doing a lot of posturing but hasn't enforced anything yet. Director Reuser said he is uncomfortable not having a plan because somebody else is screwed up more than we are. Director Hallman agreed. GM Koehler added, A similar bad scenario exists closer to home, in Hopland. The State Board did the very same thing in Hopland and all of a sudden B.I.A., Indian Health, Department of Interior stepped in, and the State backed off, saying, well, we will work something out; and things remain at that same status today. Director Reuser said, I agree with Director Hallman - we need a plan. Director Butow recalled the enforcement letter received a few years ago, and that letter was forwarded to

our Counsel Paul Minasian, who then wrote a letter to the State. It turned out to be a question of miscommunication or lack of communication between the enforcement division and the process division of the State. Director Butow mentioned a subsequent trip that he, General Manager Koehler and Director John Groth made to Sacramento to have a meeting with the State. They didn't speak with the enforcement division, but with the process division and at the end of day it was very cordial. The lady assured them that all the paperwork was done and ready to process. Things were quiet for a while and the lady was ready to retire; so she called the District and said she had handed it off to so-and-so, for his approval and signature. However, during that process a new person entered the picture and just started from scratch all over again. Director Butow concluded that he thinks that reasonableness will eventually prevail. Director Pool asked, Has anyone at State Board ever suggested that it could get approved without our proving up more water to supply the annexations? Director Butow and GM Koehler agreed that although that would be the administrative way to conclude this whole problem, the answer is, no. General Manager Koehler added, But as Stretars points out, even if they approve our petitions to change the Place of Use, it's only within our own water right, which is good for somewhere between 4 days to 6 weeks a year. The rest of the time we are pumping Flood Control water or Sonoma County water and it is not in the Place of Use of either of those agencies.

When Mr. Stretars offered his fourth suggestion, it was for Redwood Valley to go to Sonoma County and get them to annex it into their Place of Use. GM Koehler said, I pointed out the absurdity of approaching Sonoma County at a time when they had just cancelled all of their contracts, including the City of Santa Rosa, the City of Sonoma, the Valley of the Moon Water District, Rohnert Park, North Marin, Petaluma, Marin Municipal. I kept stressing to him that now is not the time to go hit the hornets nest with a stick. There is D1610, there are two Licensing Agreements going on, and there is the Biological Opinion going on. Unless the Board advises otherwise, my opinion is to lay low. All we're trying to do is get a few breadcrumbs out of the big picture. Director Pool asked, What has transpired further with the Hopland situation? GM Koehler responded, Nothing, except that essentially the solution to Hopland, a solution to Millview and the solution to Redwood Valley are all possibly tied up in the 7,500 acre-feet which are named in D1610; and some sort of arrangement such as the presentation by Lee Howard and Sean White involving the possible swap between the 6,000 acre-feet that the Flood Control District has applied for and the 7,500 acre-feet mentioned in D1610. That would solve not only Hopland, Millview and Redwood Valley, but also some additional ag interests that have approached the Flood Control District. For your information, I have been trying to reach Pam at Sonoma County Water Agency to discuss an interim agreement that the Board of Directors spoke of last Meeting, but she is not returning her calls, and Randy Poole has gone on vacation for the month of September. Will Carson interjected, That's news; I had just talked to Sean White about a week ago or so about the status of that, and he said that Randy Poole was upset because some of the people that worked for him have not moved the process along far enough. To remedy that, Sean and Randy were going to have a face-to-face in a couple of weeks and try to hammer some of the points of this Agreement out and move it along a little bit. But if Randy is going on vacation for the month of September, it won't be just a couple of weeks.

Director Reuser asked GM Koehler, Please refresh me on this. There is a protocol; if the State comes over here to shut these annexations off, we will have some lead time. GM Koehler responded, We will, absolutely. Director Hallman said, I am concerned about how much lead time there is on these fines piling up. GM Koehler commented, I believe there will be more posturing before fines are put in place, if only because they haven't done their part to move the process along. Director Reuser said he feels that the people in these annexations should be kept aware of every communication received that could jeopardize their situation. Director Butow added, In the past, we weren't in as good a position as we are today. We have

completed all their demands; the paperwork is sitting over there. We've got a lot more leverage for legal counsel to use in the event that we get to that point; what resulted before will result again, a lot of discussing, a lot of posturing. Director Reuser said, I think if we copy the annexed customers with every correspondence that directly affects them, it's going to make our position more defensible if the time ever comes that, in the worst case scenario, we have to shut their water off. GM Koehler responded, It will be done. Director Hallman added, My concern about this, is that this has gone on for so very, very long now and all the original key players are not the key players any more. GM Koehler asked Director Hallman, What would you like to see done? Director Hallman responded, Exactly what we are doing; lay low and have a contingency plan. GM Koehler asked, What contingency plan would you suggest? Director Hallman said, For this Board to be prepared to shut them off if they need to. GM Koehler stated, If the State walks in my door with a CDO, I will immediately call an Emergency Board Meeting and I will also notify the annexed parties at the same time, to come to the Emergency Board Meeting. If the Board makes the decision to shut off those areas, that is what I will do. Director Reuser questioned, But there is a phasing to that; and GM Koehler said, Yes. Will Carson wondered if the State Department of Public Health is informed of this and GM Koehler said he will make sure Mr. Burton at the Department of Public Health receives a copy of the letters, also.

E. SCWA.

On August 25, 2009 the Sonoma County Board of Supervisors, acting as the Board of the Sonoma County Water Agency, directed the SCWA to commence and continue the development of new water supply projects, plans and strategies; to no longer pursue implementation of the 2008 Water Project; and to negotiate new agreements for water supply with all of its contractors. The Board action directs the agency to commence preparation of a new 2010 Urban Water Management Plan based on changes in status to the operations as a result of the Biological Opinion, the Decision 1610, limitations to discharges to Dry Creek, climate change, ability of its contractors to raise rates, etc.

The Biological Opinion is really driving this timeline. It was released about 13 months ago and it essentially directed SCWA to spend 5 years developing a broader water path down Dry Creek to allow a much greater volume at still reduced velocities to flow down Dry Creek to get the water down to Woller; and in the past year Sonoma has been trying to obtain right-of-entry, but unsuccessfully. The Dry Creek landowners won't even allow Sonoma on their land. The value of that land is 10-20 times more than in Mendocino County and they are not going to remove a few hundred acres of Dry Creek land in order to install a 10' diameter pipeline. It's just not going to happen. So those folks are not even allowing right-of-entry for Sonoma to go in there and survey. There are other options, going over the hill into Healdsburg, but then the pumping costs are added; and when Randy Poole puts all this stuff out, saying it will cost a half a billion dollars to build this pipeline, there will be a loud outcry objecting to the necessary rate increases.

F. Budget, Water Rates, Salary Analysis.

Director Butow asked the Board to defer discussion of furlough analysis to a Closed Session at the September 17, 2009 Regular Meeting. This was agreeable to the other Directors.

General Manager Koehler led the review of the Budget analysis, having incorporated said requested changes from the last budget review at the August 20th Board Meeting. On page 1, the figures for the sinking fund and the debt analysis were removed because they were not included in 08/09. The figures on page 1 are real, they reflect what did transpire in 08/09. It still

shows the 70/30 ratio for the cost of doing business on the domestic side versus the cost of doing business on the agricultural side. He did this whole exercise in order to document that in essence, what he is doing with the calculator and computer is essentially what the District paid several thousand dollars for in 2000 to Brelje & Race when they provided their Rate Study. It still comes out to the same ratio of costs.

The cost of water and for pumping is \$160 per acre-foot. We are currently paying \$60 per acre-foot of water to Sonoma County Water Agency. We were paying \$47 per acre-foot to the Flood Control District, but we do not know if the Flood Control District will have any surplus water to sell to R.V.C.W.D.

It was noted that about 50 of our ag customers are not using the full volume of the prebilled/prepaid water. The annual minimums for ag accounts are currently: 3 acre-feet for 2" meters and 6 acre-feet for 4" meters. There is a potential liability if the District removes the annual minimum amount and charges only a monthly meter fee plus actual water usage.

Page 2 was reviewed line by line.

There are potential budget shortfalls:

- the \$20,000 received from property taxes may be "borrowed" by the State.
- the \$12,000 spent on meters for F/Y 08/09, was not invoiced until 09/10.
- we will need some additional funds for Ag meter repairs or replacement.
- there will be monies spent for the fine/mitigation for water discharge.

We have projected total water sales of 1,000 acre-feet for ag accounts and 500 acre-feet for domestic accounts, which is lower than average, but it is due to customers doing such a good job with conservation. Grape harvest should be over within the next 6 weeks and we might see some post-harvest irrigation. As to residential, people haven't planted gardens and their lawns are dead, so we don't anticipate any big boost in water usage for the rest of the year. As a comparison, in July and August 2004 we pushed 792 acre-feet of water; and in July and August 2009 we pushed 348 acre-feet of water, which is a 44% reduction. It is possible that we may not even move the projected 1,500 acre-feet this fiscal year, and this budget is based upon that figure. Our heaviest year was last year, which was 2,800 acre-feet, but this year we might sell only 1200 or 1300 acre-feet.

Director Butow said this is so difficult because we're looking at drought years and wet years and we are trying to build a budget to go into the future. If we have a wet year, are we going to need the higher prices that we have to assess in the dry year in order to stay alive? This makes it difficult.

GM Koehler suggested that targeting the 1,500 acre-feet is somewhat of a compromise that says, o.k., in a good year we are building up the war chest a little faster. We know that we have massive expenses coming our way, such as the E.I.R. for annexation if that materializes, and the late notice from State Board.

Director Butow said, I want to point out that we no longer have the \$100,000 debt that is listed; we got out of that debt with \$360,000 from our sinking fund, which we call the L.A.I.F. fund. Director Pool responded, That's not what this is about; we had this discussion at the last meeting.

Director Butow said, I know we had that discussion and this is where I disagree. Through deferred maintenance we developed about a \$3.5 million war chest in Sacramento in the

L.A.I.F. account. After we had a manager change, the new manager came in here and he started identifying all of the things that had been neglected, it was a deferred maintenance thing. We started spending that money down, to take care of the deferred maintenance, which I would argue is also part of your depreciation. Now you can call it depreciation as it goes down; alright, you're taking care of depreciation. And we've been spending a lot of money, look at the shop out here and all the electrical and all the other things to bring it up to code and take care of business. Some of that money, about \$276,000 of it was toward "help and reserve" to make a payment on this loan. That was also part of it. We've spent this money and, if you go back and look at it, that was our sinking fund at the time; we were always putting this money aside out of every budget into that thing and that is how it got built up to about \$3.5 million. We spent about a half-million dollars of that money looking for water sources, which never panned out. What I am saying is that I agree that we have got to start replenishing that reserve that we were building up, to cover the things that have to be done. We've got an old infrastructure, nobody is arguing about that; we have plenty that needs to be done, nobody is arguing about that. What I am saying is, when you look at the \$250,000 that would be going to replenish that, that money is not being used right away, it is going to go into the L.A.I.F. account to augment whatever is left in there. Let's start building that up so when these things come up that have to be done, we can take care of it. That's what we've been doing; we've just called it different names. But still, that was our reserve to cover whatever we needed to have done. So when we get to the debt service, what debt are we servicing?

GM Koehler answered, The discussion at the ad hoc budget meeting was that the \$100,000 should be in there to service future debt. Future debt so that we would have the ability to finance, say, a \$3 million project which is going to cost us \$60,000 per year per million dollars borrowed. It wasn't past debt, it was specifically earmarked for future debt. This is a major increase. Part of the major increase is due to financing the \$350,000 additional that wasn't there and hasn't been there in the past. And, the impact of removing that, is to lower the cost of an acre-foot of water by \$100.

Director Butow commented that this is a better than 150% increase on ag water and we're not even coming close to that much increase on domestic water.

GM Koehler responded that he absolutely agrees with that analysis; but again, the core methodology here was to come up with defining what percentage of our budget should be assigned to ag and what percentage assigned to domestic. This comes out at 28% ag and 78% domestic for 'projected', and the past percentages were 30% ag and 70% domestic. He added, I was directed to put \$350,000 additional dollars into the budget, over and above the budget amount that we agreed was a reasonable amount after we stripped out everything that we vaguely construed as strippable. That leaves us with this dollar amount and then I was directed to put \$350,000 back in. Then I took the liberty of saying, alright, now I'm going to take it back out again because I think there is going to be panic in the land over what it leads to. So, that's page 2.

Director Butow commented, Okay, that's where we're at right now in this thing.

Director Reuser added, Even with those two numbers, we're still \$50,000 less than what the accountant suggests we should be putting away.

Director Butow expressed concern for the small grape grower and how the cost of water and power exceeded what some growers got for their grapes last year. He feels that if the cost of ag water goes to \$347.00 right off the bat, the small growers cannot make it. The nationwide

economic situation and the local economic situation and the water drought have combined to make a dire situation. He stated, A 150% increase in water rates is not getting my vote, and I suggest that the \$100,000 debt service be removed.

GM Koehler said, There are two dilemma's, it is too much money at this time in this economy; but the flip-side of that is that you can't have the domestic subsidizing the ag unless you make a political decision that that is what we are going to do.

Director Butow responded, I don't see where the domestic is subsidizing the ag.

GM Koehler stated, At anything less than those prices, it is; unless you pull out the \$350,000 in its entirety, in which case you will reduce it by \$100. It is costing us \$160 to pump an acre-foot of water over the hill. Period. How can we possibly sell that water for less money than it costs us to service and maintain it? We can't, or we're losing money. Yes, we do charge \$1500 an acre-foot for domestic water. So, an extra \$100 is a much lower percentage increase and so it's not as painful, but if we charge more for the domestic water than we can justify, based on a 70% marked-up, fully burdened acre-foot of water, then what you are doing is literally subsidizing the ag.

Director Butow said, I guess that what I'm looking at is the bare-bone minimum of pumping the water and paying PGE to do that, and paying the SCWA the \$60 per acre-foot of water...

GM Koehler offered, Let's go back to Page 1.

You can see that the Cost for Treating Ag water is: zero. There is no percentage of money charged to Ag water for Treatment.

On Shared Admin, it's a 50/50 share of \$9,000 total, which is a drop in the bucket out of a \$900,000 budget.

And the same thing with Capital: 100% of the Capital budget is charged to Domestic; cost to Ag is: zero.

For Payroll and Admin, Ag was charged: 15%.

It still comes out to be 30% Ag, and 70% Domestic.

The Water and Power is based strictly on the amount of water that is pumped, and has nothing to do with the treatment plant.

The Transmission and Distribution figures show actual costs, which was \$4,900 for ag and \$32,900 for domestic.

If you take the amount of money that's in our budget and you break it into a 70%-30% ratio, you come up with 'x' dollars that has to be assigned to ag. If anything less than that is assigned to ag, you are subsidizing ag. That is the political decision that this Board can make, and it is the political decision that other combined districts have made.

Director Voege asked Director Hallman, Do you have something to add? I know you have an audience, and they feel strongly about this subject.

Director Hallman replied, I do; and I'd like to tell you about my call to Keith Tiemann. I wanted to know about how we got the \$3.5 million set aside. I actually had a nice discussion with him; we even talked about this phrase of "deferred maintenance" that I keep hearing. This is going to kill some people. I don't like it; I don't like it at all. I think it's a really, really bad time to add this sinking fund, I think it's a really, really bad time to add the debt. I know that they are necessary, I understand all that, I just think that it's the worst possible time to do it. I know that you are saying, a hundred dollars. Director Voege asked, What is that hundred dollars, what does the

hundred dollars mean? GM Koehler explained, I show that on the last page, I see the same numbers. From day one when I started punching in these numbers, it was, oh gosh. There are two things to consider. One is: we've got to cover our costs. Two is: if you want to make a political decision that says one side is subsidizing the other side; that is a risky decision to make. There are a whole bunch of domestic customers out there that are already hollering for blood. That being said, this is the explanation of the \$105: if you were to pull the \$350,000 out, it would reduce the cost of an acre-foot of water by \$105, and that is across-the-board. Director Voegel commented, That's a significant number, that's \$350,000 to \$250,000. GM Koehler added, On an average we're putting 8"-10" of water on the ground on grapes. Director Pool said that because there is so much less ag watering around his property this year, his three wells for his rentals are going dry. GM Koehler continued, If you reduce an acre-foot of ag water by \$105, it's a very significant decrease. It is a not so significant decrease in cost to a domestic customer because our domestic customers use, again, a rate of probably 2.5 customers per acre-feet of water per year. In California it used to be said that an acre-foot of water would serve two families for a year. Now it is two-and-a-half families for that acre-foot of water per year. The statewide average is 160-180 gallons per day per person. The Santa Rosa average is about 110-120 gallons per day per person; Redwood Valley is about 75 gallons per day per person in conservation mode. In a normal year, we're closer to 80-90 gallons per day per person. Again, that's not taking into account the people who have access to ag water at their property for incidental purposes. Director Voegel asked, Hypothetically, suppose that we, in fact, take out this \$350,000, do we then have the budget that we need to have, to run the district? GM Koehler answered, To run the District? Yes, assuming that we sell 1,500 acre-feet. Director Voegel continued, What happens if we leave the \$100,000 in, what does that leave in the ag? because I had the same reaction as a lot of people on ag water; if this went the way it is projected to go, our monthly bill would go from \$37.50 to \$60.00. That is a significant number for people that are on a retirement budget. Mr. Spilman commented, And that's a significant number for people that are growing grapes. Right now we're at the mercy of water rights, and how much we get beat up by the cost of water. Director Butow added, And that is part of the whole economic package that the farmers are dealing with this year. I heard this yesterday, that Sonoma County wineries are going to buy grapes from Napa County because they are hurting in sales, and they won't be buying from Mendocino County. I also heard that a Redwood Valley winery went to Lodi and bought grapes for \$300 a ton, so what we're talking about here is that all the grape growers are getting worked over pretty hard. Director Reuser said, If we don't put some money away, we're just signing an adjustable rate mortgage on the Water District. We're signing a bad deal. As far as I can tell, these numbers presented are real, they are not opinions. It is a pretty substantial hit. There is a suggestion in here that we phase it in, over a couple of years to let people get acclimated to it. The debt thing, that's a visionary thing, we could probably table that, take that out, but I think anything shy – even at \$250,000 we are substantially less than what the accountant is saying we need to be putting away for the future repairs of the District. If we don't put any money in for future debt service, anytime a project does come along, we're going to stand there and watch it go by. Director Voegel added, Certainly, we need to keep replenishing the funds. Director Butow said, We do need to replenish. The point I never did add when I was speaking earlier, was the fact that out of that \$3 million reserve fund that we had built up, we spent very close to \$2 million repairing infrastructure. If you apply it according to what our accountant was saying, and correct me if I'm wrong, when he came up with these numbers it was based upon a \$7.5 million debt. That was what it cost to build the District, wasn't that the depreciation schedule that he laid out? General Manager Koehler stated, Yes, at \$25,000 per month. Director Butow continued, Yes, and what we've already spent in repair work, leaves us with \$2 million.

Director Reuser added, But this is a rolling number, it happens every year. Director Voege said, Well, it does and it doesn't. I mean, the fact that a lot of it was deferred meant that there was a big hit for upgrades. Director Butow responded, About a \$2 million hit to get ourselves back up to speed. Director Voege continued, My sense of it is, however we do it, this is not the year to do it. Director Reuser said, This is a real, real bad time, but I think it is also a real good time to be addressing these issues. Director Voege added, We need to think about the economics of the customers. Mr. Spilman asked, How many people do you think you will put over the edge with these figures? Director Reuser commented, I would rather subsidize ag with domestic at this point. Mr. Spilman said, Well it's the domestic people, too; they have been struggling to meet the needs of rationing and now they are going to be rewarded with a higher rate? Director Voege responded, No. That is really a specious argument. And the reason is that in order to keep water flowing, the District has to keep running, which means that the bills have to be paid, the salaries have to be paid, the leaks that come along have to be repaired, all that stuff continues. Director Pool added, And the price of water is going up and the price of electricity is going up. Director Voege said, Right now there is a marginal decrease in the electrical charge because there is less water pumped. Everything else either stays the same or it goes up; it's not a punishment, it's a fact.

Director Butow added, It's ironic that if you use more water, we make more money and can continue the District, and then we ask everybody to reduce usage so that we can stretch out serving the little bit of water we have to go around, but we're still sitting there with the same cost factors. Then we turn around and say we have to factor these items into the rate structure, it's really tough. This is the toughest budget I've ever gotten involved in while serving on the Board.

Will Carson asked when the District last implemented a rate increase.

Director Hallman answered, The last increase was January, 2006; and previously it was in 2002. But from 1990 to 2002 there was no rate increase at all. Before that, as per my conversation with Keith Tiemann, there was a rate increase every two years. That was pretty steep and at one time the domestic rates in Redwood Valley were the highest in the inland valley area. Then 1990 hit and that stopped; and then all the other agency rate increases surpassed the Redwood Valley rates.

Break: 8:40 P. M.

Reconvene: 9:10 P.M.

Page 3 was reviewed. It was noted that the reason the 2009 ag usage figures are different than the historic 1/3 – 2/3rds ratio, is because of the tremendous water usage in February and March, by the ag customers. It was greater usage than the 19-day frost event in 2008. And all that usage was basically for prefilling the storage ponds in anticipation of another extreme frost event.

In reviewing Page 3, General Manager Koehler commented, Typically, when you raise rates significantly, you see a dropping spiral in usage during the first year and then usage slowly climbs upward from there.

Director Butow commented that there will always be something coming along, such as a State Department of Public Health Ruling, or meter replacements, or mainline maintenance.

General Manager Koehler said in the next year we will be monitoring for o-cysts, which are microscopic organisms in egg form. The o-cysts are in the raw water; not in the filtered, finished

water. This rule only applies to surface water. For the last 12-14 months we've been monitoring the raw water for coliform. And yes, in water treatment there will always be something coming down the pike.

We are going to switch the domestic meter reading format to report every dial on the meter and we'll bill, per each gallon used, as opposed to the historic billings of per thousand gallons used.

Starting immediately, we are converting to end-of-the-month meter reading instead of the historic mid-month reads for both domestic and ag systems. This will allow us to get a true 'snapshot' of usage for the whole month which will conform with the format of all the monthly reports that have to be Filed.

The chart on Page 4 was reviewed line by line.

The usage and rate tiers were discussed. General Manager Koehler reminded the Board that as a participant of the Urban Water Management Plan, we are required to have tiered rates in order to force people who use more water to pay the higher rates. That is the requirement of the State.

The Directors asked about the average customer that would draw 20,000 gallons of treated water in a month and GM Koehler explained that in his observations, it is for landscaping. Director Reuser asked GM Koehler if he could name any account that would draw 20,000 gallons that would not be for a frivolous matter, with landscaping considered frivolous. GM Koehler said that households are expanding; married children with families are moving in with the parents. Director Voegel mentioned that someone with several horses would need that kind of water. It is conceivable.

Records show that there are 75 accounts right now, under absolute conservation demand, that are using more than 20,000 gallons per month.

Mr. Spilman wondered how the Board could increase the rates after telling the customers that they must conserve at 50%.

GM Koehler answered, At the same time, it is the marginal cost of finding 'new' water. Finding new water is more expensive than selling the same source water.

Will Carson added, You will also have some people that will use well over what is reasonable, to the detriment of the other people in the District. So the others have to suffer and go on to a forced conservation mode because you have water loss.

Director Pool added, And those are the people that will force the District to have to spend phenomenal amounts of money to get more water than they need, to be paying something more approximating the marginal costs of additional water.

Mr. Spilman remarked, The District is asking for a 40% increase, and that's not fair.

GM Koehler answered, That increase is only on domestic water usage that exceeds 20,000 gallons per month. What we're trying to do is provide water to the majority of customers, as cheaply as we can, and make sure that those customers that insist upon using huge amounts of water are responsible for generating the funds that are necessary to go find new water. We don't have that water, so if we have to go find more water than we've already got, it will be more expensive.

Director Voegel added, When you've got a \$7 million debt hanging over your head, you cannot get a loan.

Director Butow commented, In our search for water, we've spent \$.5 million searching for locations, but we couldn't afford to buy anything. The idea to look at building a pond will be at today's cost of \$10,000 per acre-foot, meaning that a 1,000 acre-foot pond would be at a cost of \$10 million. Then we would have to go back to the voters of the District and ask them to pay for it. We are hesitant to do that; and we do have some hope for the 'carrot dangling in front of us' that is, we might possibly get a permanent water right for 3,000 acre-feet out of Lake Mendocino.

Will Carson added, If finding water was easy, Redwood Valley would have found water and not be in their moratorium, Millview would have found water and not have been in their moratorium since 2001, Hopland would have found water and not have their problems, the Tribes would have found water and not have their problems. Finding water is not easy; there are layer on layer of regulations that began in 1914 that complicate this whole mess.

Director Hallman stated, The truth of the matter is that we have to walk a fine line. We have a lot of public masters. The State tells us that we have to conserve. We've got to have the money to run the District. We do hear what you are saying. We have to set rates that will have the highest users helping to pay for the search for new water.

Director Voege commented, In spite of the drop of demand, this nation uses far more water than other nations.

The Directors returned to studying the proposed tiered rates. The intention is to have the minimum rate of increases at the minimum usage tiers. As the usage increases, the rates increase. The accounts with multiple registered residences will be considered.

As to agricultural accounts, the Directors agreed to changing the rate structure to incorporate a meter fee. The 2" meter fee will be \$20.00 per month; the 4" & up meter fee will be \$40.00 per month. The cost of water will be on top of that.

Roy Beck left the Meeting at 10:05 P.M.

Will Carson left the Meeting at 10:08 P.M.

Director Hallman mentioned that this is the first year that the District has actually had to purchase water from Sonoma County Water Agency. There is such a price difference between the Flood Control District and the SCWA, she wonders if there is much of a possibility of getting back to purchasing FCD water in the foreseeable future. However, the FCD doesn't have surplus water for Redwood Valley to purchase right now.

Director Butow suggested that because of the lateness of the hour, the Directors review the Miscellaneous Fees shown on the last page and then we can close up for tonight.

The Directors agreed to the following Fees:

- \$10.00 10-day Notice (40 days late)
- \$25.00 48-hour Notice (doorhanger)
- \$50.00 Reconnect Fee
- After-hours Reconnect: Not Available
- Actual cost + \$100 Broken Curb Stop
- \$100 Cut Lock
- \$200 Pull & Reset Meter (for violations)
- \$50.00 Install & remove Flow Restrictor
- \$10.00 Backflow Program Administrative Fee
- \$25.00 Return Check Fee.

General Manager Koehler was asked to further refine the rate structure as discussed throughout the Meeting and bring it back to further review as the main topic at the next Meeting.

The Meeting ended at 10:30 P.M.

The next Regular Meeting is scheduled for 7:00 P.M. on Thursday, September 17, 2009 at the Water District Office, 2370 Webb Ranch Road, Redwood Valley, California.

APPROVED: Board of Directors

DATE APPROVED: November 19, 2009

SIGNED: Linda Groth
 Secretary, Board of Directors