

CITRUS HEIGHTS WATER DISTRICT
BOARD OF DIRECTORS MEETING
October 10, 2006

The Regular Meeting of the Board of Directors was called to order at 6:30 p.m. by President Dains and roll was called. Present were:

Allen B. Dains, President
Charles T. Rose, Vice President
Joseph M. Dion, Director
Robert A. Churchill, General Manager
David B. Kane, Assistant General Manager
John J. Townsel, Operations Manager
David M. Rossi, Project Manager
Paul A. Dietrich, Senior Engineering Technician
Timothy R. Cutler, Construction Inspector

VISITORS

Bill Gustavson, Luhdorff & Scalmanini Consulting Engineers
Elizabeth Yafate, Luhdorff & Scalmanini Consulting Engineers

President Dains led the Pledge of Allegiance.

CONSENT CALENDAR

President Dains asked for the Consent Calendar. President Rose asked questions about specific line items in the Operating Budget report. AGM Kane informed the Board that he would research the items and report back to the Board.

It was moved by Director Rose, seconded by Director Dion and carried 3-0 to accept the Consent Calendar consisting of:

1. Minutes of the Regular Meeting of September 12, 2006.
2. Assessor/Collector's Report for September 2006.
3. Adjustments to the 2006 Assessor's Roll.
4. Treasurer's Report for September 2006.
5. Bills to be Paid for September 2006.
6. Approve CAL-Card Purchases for September 2006.
7. Summary of 2006 Directors, Officers and Employees Training, Seminars and Conference Expenses.
8. Authorize the disposal of District Equipment Numbers 12 and 37 by public auction.

OLD BUSINESS

2007 Budget and Water Rates

AGM Kane presented a report on major issue related to the draft Operating and Capital

Improvement Budgets for 2007, and draft water rates for 2007. He reviewed the following actions that had been taken by staff in regard to the proposed budgets and rates following the September 12 Board meeting:

1. A Notice to Property Owners of Proposed 2007 Water Service Rate Increases and Public Hearing in compliance with Proposition 218 was prepared and mailed. This Notice was mailed to about 17,700 owners of property within the District's service area. Directors were provided with a copy of the Notice. A total of 25 letters of protest have been received by the District to date.
2. Several minor adjustments were made to the Operating Budget, including reducing the estimated cost-of-living adjustment (COLA) for employee salaries from 4.5 percent to 4.2 percent, based on the downward trend of the Consumer Price Index over the past two months. This minor reduction was offset by corrections to Operations and Maintenance Department salaries, resulting in an overall increase of about \$2,400, from \$7.721 million to \$7.723 million.
3. The cost for the two groundwater well projects in the 2007 Capital Improvement Budget (Mitchell Farms and Skycrest School wells) and all future-year groundwater well projects have been increased \$300,000 each from the costs presented at the September 12 meeting. The recent bid opening for the Mitchell Farms well construction suggests that costs for this work have increased even more dramatically than previously believed. The projected cost of groundwater wells for financial planning purposes is now \$1.7 million per well, as compared with the estimate of \$1.4 million considered at the September 12 meeting.

Highlights of the proposed \$7.723 million Operating Budget for 2007 were reviewed and discussed, including: insurance costs; salary and benefit costs; a new customer service position; purchased water costs; and a transfer to the Rate Stabilization Reserve. The proposed \$3.79 million draft Capital Improvement Budget for 2007 was also reviewed and discussed, including the major capital projects scheduled for 2007.

Information related to the District's Long-Range Financial Plan was also discussed. This Plan, which was modified last year to extend the planning horizon another five years into the future, continues to project District expenditures and revenues through the year 2015. Staff has run the model yet again, using the more aggressive set of assumptions for increases in operating and personnel costs and also the greatly-increased estimates for groundwater well construction. The rate model now projects the need for a rate increase of 8 percent for 2008. Annual increases varying from 3 percent to 10 percent are projected for the remaining years of the rate model, 2009-2015.

Water rates and charges for 2007 were also reviewed and discussed. A rate increase of 7.4 percent for the average District single-family residential customer is being proposed for 2007, as stated in the Proposition 218 notice that was recently mailed to customers. This is the minimum increase required to support the proposed operating budget and planned capital improvements while maintaining the required debt coverage under the District's bond covenants. Directors and staff discussed the proposed increase.

With no further changes to the budget or rates under discussion, staff will prepare the 2007 Operating and Capital Improvement Budgets and 2007 Water Rates and Miscellaneous Charges and Fees for 2007 in final draft form for consideration at the public hearing on November 14, 2006.

Mitchell Farms Groundwater Well

GM Churchill presented a report on bids received for the pump station construction phase of the Mitchell Farms Groundwater Well. Bid notices were sent to 17 contractors with eight contractors requesting plans and specifications. Plans and specifications were also provided to five plan houses. A public notice was also published in the Sacramento Bee.

Two bids were received on September 28, 2006 as follows:

Clyde Steagall, Inc.	\$ 1,307,420
Division 5-15	\$ 1,410,000

The engineer's estimate for this phase of the work was: \$ 1,032,625.

The bids have been reviewed by District staff and by Luhdorff & Scalmanini Consulting Engineers (LSCE) and references checked. Directors were provided with a copy of an October 3, 2006 letter from LSCE stating that each bid contained mathematical errors in the extension of the unit prices causing the unit price extensions not to agree with the bid total. These extension errors did not change the order of bids. However, because of the clause in the bid documents that states "In case a discrepancy or error exists between the bid item extension totals and the grand total, the sum of the extensions shall prevail as the basis for the award," the bid of Clyde Steagall, Inc. is technically \$1,237,422, not \$1,307,420 as written on their bid form. Clyde Steagall asserts that the error in the unit price for concrete, \$94,218 vs. \$24,218, resulted from a poorly transmitted telephone message. The engineer's estimate of \$88,825 and the other bidder's concrete price of \$56,865 support the assertion that the lower amount was an error.

In its bidding process, the District reserves the right to reject any or all bids or to accept any bid. The District also reserves the right to determine which proposal is, in its judgment, the most responsive bid of a responsible bidder and which proposal should be accepted in the best interest of the District. The District also reserves the right to waive any informality in any proposal or bid.

GM Churchill outlined the District's options as follows:

1. Award the bid to Clyde Steagall, Inc. for \$1,237,422.
2. Award the bid to Clyde Steagall, Inc. for \$1,307,420.
3. Award the bid to Division 5-15 for \$1,411,494.
4. Reject all bids and re-bid the project.

Each option has drawbacks. Awarding the bid at the lesser amount to Clyde Steagall,

Inc. could create an adversarial and unproductive atmosphere between the District, the Contractor and/or the Contractor's Bonding Agent at the very onset of the project. Awarding the bid to Division 5-15 would be more expensive for the District. Rejecting all bids and re-bidding the project would cost the District in terms of time and expense and would not necessarily result in a larger pool of bidders or a lower bid.

Directors, staff and Bill Gustavson and Elizabeth Yafrate of Luhdorff & Scalmanini Consulting Engineers discussed the bids and alternatives for awarding the bid. Directors agreed with the assessment that rejecting all bids and re-bidding the project was not in the District's best interest and might very well increase the costs of the project. They also recognized that holding the low bidder to the lesser amount would not be a good foundation for a successful project. Awarding the bid to the higher of the two bidders would not make sense since it would cost the District over \$100,000 more than the low bidder, even at the low bidder's higher bid total.

It was moved by Director Dion, seconded by Director Rose and carried 3-0 to award the bid in the amount of Clyde Steagall, Inc. in the amount of \$1,307,420.00 and authorize the General Manager to execute the contract; and to provide a change-order contingency in the amount of \$65,000.

November 2006 General Election

GM Churchill presented a report on the election for District Directors from Divisions 2 and 3 that was previously scheduled for November 7, 2006. The seats are presently held by Joseph M. Dion and Allen B. Dains, respectively. Each incumbent Director is the only candidate to have filed for election from their Division.

Directors were provided with a copy of the Certificate of Facts noting the intended action by the Sacramento County Board of Supervisors and corresponding information from Placer County documenting their intent to appoint Joseph Dion as Director, Division 2, Citrus Heights Water District and Allen Dains as Director, Division 3, Citrus Heights Water District.

NEW BUSINESS

Training/Continued Education/Meetings

The Board was informed of various upcoming training, continued education opportunities and meetings.

Purchase of Dump Truck Bed

OM Townsel presented a report on the purchase of a ten-foot dump bed for a new dump truck. In May 2006, the Board of Directors authorized staff to order an F-650 cab-and-chassis as a replacement for an existing dump truck as authorized in the 2006 Capital Improvement Budget. The vehicle has arrived through the State of California bid from Downtown Ford. Local suppliers have bid on the dump bed to be installed on the cab-

and-chassis, and three proposals were received:

<u>Supplier</u>	<u>Total Bid</u>
Downtown Ford Sales	\$ 12,561.50
Sonora Truck Equipment	\$ 14,467.59
Lodi Equipment	\$ 15,801.53

The total amount budgeted for this vehicle was \$50,000.00. With the purchase of the dump bed as recommended by staff, the total cost of the vehicle will be \$52,386.66. Directors and staff discussed the dump bed purchase.

It was moved by Director Rose, seconded by Director Dion and carried 3-0 to authorize the purchase of a ten-foot dump bed from Downtown Ford in the amount of \$12,561.50 to be installed on the recently-acquired F-650 cab-and-chassis truck.

Statement Regarding the Use of Remediated Groundwater

GM Churchill presented a report on a proposed general principles statement by the San Juan Family of Water Agencies regarding the use of remediated groundwater. Directors were provided with the proposed final language to establish a San Juan Water District Family of Water Agencies' (San Juan Water District, Fair Oaks Water District, Citrus Heights Water District and Orange Vale Water Company) position regarding the potential use of treated groundwater that may be available as a result of Aerojet remediation efforts within the Fair Oaks Water District service area. This language was developed by the senior-level management staff of the aforementioned water agencies, and is intended to provide a more global statement regarding contamination, as well as specifically address the issue presented to the Family by the proposed Aerojet actions.

The language of the statement is as follows:

The long-term water management strategy for the San Juan Water District Family of Agencies includes the conjunctive use of high quality surface water and groundwater extracted from beneath the service areas of the family agencies. This strategy allows the family to manage water supplies for dry years and emergency outage conditions. Groundwater will become a vital supply when surface water supplies are otherwise constrained. The reliability and quality of this groundwater supply is of utmost concern to the family; and therefore, the family fully endorses and supports the urgent and effective remediation of any contamination of this groundwater resource.

In particular, Aerojet is currently expanding efforts to remediate groundwater contaminated with TCE underlying a portion of the Fair Oaks Water District. These actions will result in the availability of treated groundwater at a constant rate 24 hours a day, 365 days a year. The option to pump, treat and serve this to the family would provide more water supply than could be directly used by the family at this time. However, the family has a vital interest in ensuring that the treated groundwater extracted by Aerojet from the Family's service area is available to the

Family – directly or through other means – whenever the San Juan Family of Agencies determines a need.

At the May 16, 2006 Board Meeting, the Citrus Heights Water District Board of Directors adopted the “San Juan Water District Family of Agencies: Water Shortage – Statement of Principles” as the guiding principles for developing formal agreements and procedures for addressing water shortages. Directors were provided with a copy of this document. It is intended that the remediated groundwater statement be incorporated into the Statement of Principles. Directors and staff discussed the remediated groundwater statement.

It was moved by Director Rose, seconded by Director Dion and carried 3-0 to support the general principles statement by the San Juan Family of Water Agencies regarding the use of remediated groundwater and incorporate this statement into the “San Juan Water District Family of Agencies: Water Shortage – Statement of Principles.”

DIRECTOR’S AND REPRESENTATIVES REPORTS:

Director Dion reported on a recent meeting of Regional Water Authority (RWA) that he attended along with Director Rose and GM Churchill. He also reported on a meeting of the Regional Water Authority (RWA) Executive Committee that he recently attended, and recent matters of interest involving the Association of California Water Agencies - Joint Powers Insurance Authority (ACWA-JPIA).

Director Rose reported on a meeting of the Sacramento Local Agency Formation Commission (LAFCO) that he recently attended. He also reported on upcoming meetings of the Sacramento Groundwater Authority (SGA) and the California Special District Association (CSDA) that he plans to attend. He also reported on recent matters of interest regarding the City of Citrus Heights.

GM Churchill reported on a meeting of the San Juan Water District Executive Committee that he recently attended.

PROJECT MANAGER’S REPORT

PM Rossi reported on the following activities during the month of September 2006 by the Engineering Department: projects under construction or pending construction by private contractors and developers; projects under construction by contractors on the District’s behalf; and project development/design underway by District staff.

It was reported that the following water system, added to the District’s water distribution system by an independent contractor on behalf of a private developer/owner, has been inspected by the District and formally accepted:

8272 – 8280 Mariposa Avenue, Citrus Heights (residential lots)
4 lineal feet of 8-inch ductile iron pipe water main, 15 lineal feet of 6-inch PVC

water main, 1 6-inch gate valve, 1 fire hydrant, and 2 1-inch residential water services with water meters
Value: \$ 9,210.00

OPERATIONS MANAGER'S REPORT

OM Townsel reported as follows:

A total of 235 work orders were performed during the past month by Field Operations crews, Administration field crews and District contractors. The results of recent bacteriological testing, a total of 76 samples, have met all California Department of Health Services requirements.

OM Townsel reported on the American Water Works Association – California/Nevada Section Conference that he attended in Long Beach, California recently, including the technical sessions that he attended at the conference.

ASSISTANT GENERAL MANAGER'S REPORT

AGM Kane reported as follows:

1. Production of the Fall 2006 WaterLine newsletter is underway. This edition will once again highlight the upcoming conversion of residential customer accounts to bi-monthly metered water billing in January 2008. Delivery of this edition to customers is targeted for the first week in December.
2. A Federal Home Loan Bank (FHLB) bond investment held by the District matured in mid-September. The \$50,000 investment had been held since March 2004 and was yielding 2.475% interest. The proceeds currently remain on deposit with the District's investment advisor, Wachovia Securities. The Treasurer will seek to reinvest the proceeds in similar government securities, continuing to "ladder" the maturity dates of the District's longer-term bond investments.
3. Director Rose, GM Churchill and AGM Kane attended the September 21, 2006 Water Forum Successor Effort (WFSE) meeting. AGM Kane summarized matters discussed at the meeting.

GENERAL MANAGER'S REPORT

GM Churchill reported as follows:

1. As of September 29, 2006, the District has 18,753 metered services, representing 96.73 percent of all of the District's services. The total number of non-metered services remaining is 633. The number of residential customers who have voluntarily converted to metered rates is 690.
2. District-wide water consumption for the calendar year was 15,121.29 acre-feet

through September 2006, a decrease of 6.76 percent compared with the average water consumption to date during the previous five years, 2001-2005.

3. Seventeen District employees received recognition for superior attendance, customer service and quality of work during the month of September 2006. Directors were provided with a list of the employees and items for which each received recognition.
4. An event has occurred at the Arcade Lake Condominium site involving extreme metered water use due to a breach in the dam below the water line for the lake located on their property. Prior to discovery of the breach, Arcade Lake Condominium Homeowner's Association (HOA) had hired a firm to do leak detection on their irrigation system to discover the cause of high water use. No leaks were found on the irrigation system. It was noted that the HOA had taken steps to discover the cause of their high water use, and that their water consumption history exhibits proper water management efforts.

Directors and staff discussed the possibility of providing some relief for the two very expensive water bills received by the HOA before the breach was discovered and water to the lake turned off. The two bills total more than \$14,000. Directors expressed that retaining the HOA's payment of \$7,004.83 for the first of the two bills, and waiving the second bill of about the same magnitude, seemed to be fair and equitable. This would allow the District to recover its service cost and the cost of the water delivered during those billing periods, while providing some relief to the Arcade Lake Condominiums HOA. GM Churchill will return to the Board with a billing adjustment recommendation.

5. Directors were provided with a list of the General Manager's significant assignments and activities.

CORRESPONDENCE:

Correspondence was discussed and ordered filed as follows:

1. Letter dated September 14, 2006 from Diane Honegger of Citrus Heights, regarding matters related to her driveway restoration project that was made necessary due to meter installation work by the District.
2. Letter dated August 9, 2006 from Herb Alexander of Orangevale thanking GM Churchill for his quick response to questions concerning Mr. Alexander's water bill.

FUTURE MEETINGS

A list of upcoming Board meetings and other meetings related to the business of the

District that may involve the participation of Directors or District staff was presented and reviewed.

ADJOURNMENT

There being no other business to come before the Board, the meeting was adjourned at 9:31 p.m.

APPROVED:

Original signed by: Robert A. Churchill
ROBERT A. CHURCHILL
Secretary
Citrus Heights Water District

Original signed by: Allen B. Dains
ALLEN B. DAINS, President
Board of Directors
Citrus Heights Water District