

CITRUS HEIGHTS WATER DISTRICT
BOARD OF DIRECTORS MEETING
April 8, 2008

The Regular Meeting of the Board of Directors was called to order at 6:34 p.m. by President Dion and roll was called. Present were:

Joseph M. Dion, President
Allen B. Dains, Vice President
Charles T. Rose, Director
Robert A. Churchill, General Manager
David B. Kane, Assistant General Manager
John J. Townsel, Operations Manager
David M. Rossi, Project Manager

VISITORS

Janet Dutcher, CPA, Bartig, Basler & Ray
Neelu Puri, Bartig, Basler & Ray

Director Dion led the Pledge of Allegiance.

CONSENT CALENDAR

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

1. Minutes of the Regular Meeting of March 11, 2008.
2. Minutes of the Special Meeting of March 6, 2008.
3. Assessor/Collector's Report for March 2008.
4. Assessor/Collector's Cancellation Letter for March 2008.
5. Treasurer's Report for March 2008.
6. Bills to be Paid for March 2008.
7. Approve CAL-Card Purchases for March 2008.
8. Summary of 2008 Directors, Officers and Employees Training, Seminars and Conference Expenses.

PRESENTATIONS

Financial Audit Report

AGM Kane introduced Janet Dutcher, CPA, and Neelu Puri of Bartig, Basler & Ray (BBR), the District's auditors for the fiscal year ending December 31, 2007. Ms. Dutcher was the primary accountant in charge of the recently-completed audit engagement with the District, and Ms. Puri provided assistance on the audit.

Ms. Dutcher presented an overview of the Independent Auditor's Report for the District's fiscal year ending December 31, 2007. The report was delivered to Directors within 120 days of the end of the calendar year as set forth in District Policy No. 6010.

Ms. Dutcher stated the audit shows that the District's financial records are in good shape and that its accounting practices continue to conform with generally accepted accounting principles, with two exceptions. The first exception is Finding 2007-1 regarding Controls Over Financial Reporting. This Finding relates to Statement on Auditing Standard No. 112, Communicating Internal Control Related Matters Identified in an Audit (SAS 112), an auditing standard that was adopted in 2006 as part of the Government Auditing Standards. The same Finding appeared in essentially the same form in the 2006 audit, because the District has its Independent Auditor also prepare its financial statements. Under SAS 112, the Auditor must identify this approach as an internal control deficiency. District management is confident that its internal controls are sound and that the approach used to prepare its FY2007 financial statements, while technically an internal control deficiency under SAS 112, is also sound.

Directors, staff and Ms. Dutcher discussed methods of eliminating this deficiency from the annual audit, including contracting with a Certified Public Accountant or accounting firm to prepare the financial statements separate from the Independent Auditor. It was noted that this could result in significant additional expense to the District. AGM Kane stated that it is staff's intention to bring this matter back to the Board for further discussion and possible action at a future Board meeting.

The second exception is Finding 2007-2 regarding Controls Over Grant Revenue. This Finding relates to the District's timing of recording grant revenues. The District's practice has been to record these revenues when they are received by the District. However, Government Accounting Standards Board (GASB) Statement Number 33 requires grant revenues to be recorded at the time in which all eligibility requirements have been met regardless of when the revenues are actually received. This is a condition that is easily corrected. Management's response to the Auditor states that the District will develop and implement a procedure for recording of grant revenues at the time that the qualifying expenditures are incurred.

Ms. Dutcher reviewed the Auditor's Management Report. This report contains two recommendations for improving the District's internal controls. Both of these recommendations relate to the District's physical inventory practices. The first recommendation involves the risk of loss posed by District personnel having unrestricted access to inventory that is stored in the Shop Building. The second recommendation involves the absence of timely and accurate information on inventory costing, levels and turnover. Both recommendations cite the use of a perpetual inventory system as a means to establish better internal control over inventory and to protect the District from loss.

The District's Management Response acknowledges the value of a perpetual inventory system. The Response also observes that the costs of implementing and maintaining such a system could well outweigh its benefits. Directors, staff and Ms. Dutcher discussed the

benefits and costs of increased inventory controls. AGM Kane stated that staff will examine the inventory procedures and practices during the coming year in an effort to determine approaches that will improve inventory control without incurring significant additional costs or creating inefficiencies for Operations crews.

Directors thanked Ms. Dutcher and Ms. Puri for the presentation and their work on the audit.

It was moved by Director Rose, seconded by Director Dains and carried 3-0 to accept the Independent Auditor's Report, Financial Statements and Supplemental Information for the Year Ended December 31, 2007.

OLD BUSINESS

Mitchell Farms Groundwater Well – Status Report

OM Townsel presented a status report on the pump station construction phase of the Mitchell Farms Groundwater Well project. He reported that the project is essentially complete, with only final punch list remedies remaining to be completed. Directors and staff discussed the project.

Bonita Way Groundwater Well

OM Townsel presented a status report on the Bonita Way Groundwater Well project:

- The pump station construction project is out to be, with bid opening scheduled for April 29, 2008.
- GM Churchill is obtaining an easement for a 12-inch water main and a 12-inch drain line to the west.
- Installation of the 18-inch and 12-inch drain line is pending, to be performed by District crews.

Directors and staff discussed the project.

San Juan Water District Surface Water Supply and Shortage Plan

GM Churchill presented a report on the proposed San Juan Water District (SJWD) Surface Water Supply and Water Shortage Management Plan. The Plan was reviewed at the March 11, 2008 Board of Directors meeting, and minor revisions have been made since that time. Directors were provided with copies of the Plan that is being presented for consideration of adoption at this meeting. A written summary of the Board's concerns and comments from discussions at the March 11, 2008 Board meeting was also provided.

Directors and staff discussed the Plan. It was noted that the Plan has been reviewed by Legal Counsel Albietz and Consultant Dendy without objection to approval.

Directors and staff discussed the agreement. While acknowledging that the Plan that was

being presented for adoption was essentially the same as the one that they reviewed in detail at their March 2008 meeting, Directors expressed a desire to have more time to review the document before taking action on it. It was also discussed that this Plan applies only to managing surface and groundwater supplies in periods of non-emergency shortage. Emergency water shortage conditions, including compensation for groundwater suppliers that make groundwater available under emergency shortages, will be the subject of a separate planning effort by the SJWD Member Agencies that will begin this month.

Directors expressed their continued support for the Plan. In consideration of the importance of the Plan and the fact that it could affect Citrus Heights Water District and its customers well into the future, Directors felt that the best course of action would be to defer approval of the Plan to allow time for additional review.

It was moved by Director Rose, seconded by Director Dains and carried 3-0 to carry over discussion and possible action on the San Juan Water District Surface Water Supply and Water Shortage Management Plan until the Board of Directors May 13, 2008 Regular Meeting.

NEW BUSINESS

Training/Continued Education/Meetings

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

November 2008 General Election

GM Churchill presented a report on the upcoming election for a Director from Division One. Directors were presented with draft resolutions of the Board of Directors calling for the election on November 4, 2008 for both Sacramento County and Placer County. The nomination period for this election is July 14 through August 8, 2008.

The District's Division boundaries were last reviewed and adjusted in May 2002 to provide better equity in population between the three Divisions. The District's service connection count in May 2002 was 19,106. The service connection count is presently 19,517 representing an increase of 411 services (+2.11%). With such a small increase in the number of service connections, a division boundary analysis is not recommended at this time. Directors and staff discussed the upcoming election.

It was moved by Director Dains, seconded by Director Rose and carried 3-0 to adopt Resolution No. 02-2008 (Sacramento County) and No. 03-2008 (Placer County) calling for a November 4, 2008 election of a Director for a regular four-year term from Division One.

Purchase of Network Servers

AGM Kane presented a report on the proposed purchase and installation of new network

servers for the District's computerized information systems. The network servers are powerful computers that host and process the District's computerized information systems and other shared functions and files on the District's computer network. The existing three network servers have been in use for over five years now, and have reached the point in their lifecycle that their reliability may begin to deteriorate. Funds are included in the 2008 Capital Improvement Budget for replacement of these servers.

Directors were provided with a copy of a proposal for replacement of the servers from J4 Systems, a network systems specialist that has performed much of the work on the District's existing network. The proposal is to replace the existing "physical" servers with "virtual" server technology. Examples were discussed of how the virtual server technology could produce a cost savings over the service life of the servers. The District's technology support consultant, Westin Engineering, has recommended that the District install virtual server technology.

The total cost of the proposed network server improvements is \$53,729.00 plus applicable sales taxes. Equipment and software is priced at State of California contract pricing. The District has been very pleased with J4's services on the District's network in the past. Considering the vital importance of the District's information systems to its operation and the service of its customers, staff supports staying with a network vendor that has proven themselves in past experience with the District.

The Board of Directors authorized \$54,000 in the 2008 Capital Improvement budget for the replacement of District network servers and laptop computers. Approximately \$39,800 remains after the recent purchase of laptop computers. However, staff anticipates a surplus of about \$20,000 in funds budgeted for field equipment replacement. This surplus will more than cover the cost of the virtual servers that exceeds the computer equipment replacement budget. Directors and staff discussed the purchase, and the disposition of the old servers. Staff will explore selling the old servers as surplus.

It was moved by Director Rose, seconded by Director Dains and carried 3-0 to approve the purchase, installation and setup of network server computer hardware and software from J4 Systems of Rocklin using the Virtual Option in an amount not to exceed \$53,729.00 plus applicable sales tax, per the J4 Systems Network Upgrade Proposal dated April 1, 2008.

District Payday Policy

AGM Kane presented a report on possible changes to the District's payroll schedule as currently established by Human Resources Policy No. 4113, Payday. Directors were provided with a copy of this existing policy, which involves paying employees twice-monthly, on the fifteenth and last day of the month. Because the payroll period ends on or after payday, this practice presents a number of problems and concerns.

AGM Kane outlined some of the problems posed by the current payroll practice, including: payroll being prepared before the end of the pay period, including hours not

yet worked by employees; and employees that work overtime near the end of a pay period sometimes do not get paid for that overtime until the following pay period because payroll is prepared before the end of the pay period.

District staff is considering a change to a bi-weekly pay period, with payday being one week after the end of the pay period. Before moving ahead with preparing draft amendments to the policy, the matter is being brought to the Board of Directors for discussion and input. Advantages of a proposed bi-weekly pay period were discussed, including: pay periods that are always equal in length, eliminating the problem with payroll periods of varying lengths; and allowing for orderly and complete preparation of payroll with all hours worked during the pay period reported and compensated.

Directors and staff discussed the proposed change to the District's payroll policy, and the possible effects on individual employees. If approved, District staff proposes to give several months' advance notice of the change to employees so that they will have time to plan for the change. Directors expressed support for the proposed change, and stressed the importance of keeping all District employees informed as planning moves ahead for the proposed payroll schedule changes.

DIRECTOR'S AND REPRESENTATIVES REPORTS:

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

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

GM Churchill reported on a meeting of the San Juan Water District Executive Committee attended recently by himself, Director Rose and AGM Kane.

Directors Dains and Rose reported on the Water Education Foundation Executive Briefing that they attended recently in Sacramento.

AGM Kane reported on a meeting of the Chamber of Commerce Government Issues Committee that he attended recently.

PROJECT MANAGER'S REPORT

PM Rossi reported on the following activities during the month of March 2008 by the Project Management and 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.

OPERATIONS MANAGER'S REPORT

OM Townsel reported as follows:

1. A total of 255 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 Public Health requirements.
2. District-wide water consumption for the calendar year was 2088.60 acre-feet through March 2008, a decrease of 17.3 percent compared with the average annual water consumption during the previous five years, 2003-2007.

ASSISTANT GENERAL MANAGER'S REPORT

AGM Kane reported as follows:

1. The conversion to metered water billing continues to be a major effort for the District's customer service and accounting staff. By mid-March, the District had mailed out the first metered water bills for all eight of its bi-monthly customer billing cycles. Staff continues to receive a very high volume of customer calls with questions related to the new bills. A much higher volume of over-the-phone credit card payments has also added to customer service staff workload.
2. Interviews for the Water Meter Technician position were held on March 19, 2008. Seven candidates were interviewed by a panel of three District staff members and one panelist from Placer County Water Agency. The top candidate is currently going through the pre-employment process and will be announced when all pre-employment conditions have been satisfied.
3. AGM Kane attended the Water Forum Successor Effort meeting on March 13, 2008. He reported on highlights from that meeting.

GENERAL MANAGER'S REPORT

GM Churchill reported as follows:

1. As of April 7, 2008, the District has 16 non-metered services remaining. As previously reported to the Board, the District will have a small number of services that will remain non-metered indefinitely due to circumstances that make them impossible or too costly to meter at this time.
2. Eighteen District employees received recognition for superior attendance, customer service and quality of work during the month of March 2008. Directors were provided with a list of the employees and items for which each received recognition.

3. The purchase of surface water from San Juan Water District represents the single largest recurring purchase in the District's annual operating budget. Directors were provided with a spreadsheet showing the effective water purchase costs from SJWD for the years 1999 through 2007. The effective water rate, inclusive of service charges, commodity charges and treatment plant debt service, for purchase of surface water in 2007 was \$98.95 per acre foot.
4. A joint study session to receive a report on the Sunrise Marketplace Visioning Project was held by the Citrus Heights City Council and the Citrus Heights Planning Commission on March 13, 2008. Directors were provided with a copy of GM Churchill's comments that were provided verbally to the Council and Commission regarding the need for groundwater production facilities in the Marketplace. Jim Yoder with Steadfast Development, new owners of Sunrise Mall was present and discussed Steadfast's vision for the Mall itself at the conclusion of the Study Session.
5. Directors were provided with a list of the General Manager's significant assignments and activities.

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 9:17 p.m.

APPROVED:

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

Original signed by: Joseph M. Dion
JOSEPH M. DION, President
Board of Directors
Citrus Heights Water District