

CITRUS HEIGHTS WATER DISTRICT  
BOARD OF DIRECTORS SPECIAL MEETING  
August 25, 2008

The Special Meeting of the Board of Directors was called to order at 5:33 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  
Timothy R. Cutler, Construction Inspector

VISITORS

None

Director Dion led the Pledge of Allegiance.

OLD BUSINESS

Mitchell Farms Groundwater Storage and Recovery Project – Pump Station Construction

GM Churchill presented a report on completion of the 2006 Mitchell Farms Groundwater Storage and Recovery Project – Pump Station Construction project.

On November 28, 2006 a contract was entered into with Clyde G. Steagall, Inc. for construction of the Mitchell Farms Groundwater Well Pump Station and associated site improvements. The original contract amount was \$1,307,422.00. The work has now been completed to the District's satisfaction. The total amount paid to the contractor is \$1,334,396.00. The project had ten change orders totaling \$26,974.00. Directors and staff discussed the completion of the project.

It was moved by Director Rose, seconded by Director Dains and carried 3-0 to adopt Resolution 10-2008 accepting the 2006 Mitchell Farms Groundwater Storage and Recovery Project – Pump Station Construction and authorize execution and recording of a Notice of Completion for the Project.

Bonita Way Groundwater Well – Burton Easement Acceptance

GM Churchill presented a report on acceptance of an easement from the property owner at 7124 Mariposa Avenue that is needed for construction of improvements related to the Bonita Way Groundwater Well site.

The site improvements for the Bonita Way well site include water main and storm drain connections to existing facilities in or adjacent to Bonita Way on the east side of the site and to Maretha Street west of the site. The connections to Maretha Street are across the northeast corner of property at 7124 Mariposa Avenue, owned by K. T. and Valerie Burton.

Mr. and Mrs. Burton have executed an easement to the District to allow for this construction in exchange for the installation of a 12-inch connection that could be required for future development of their 5.6 acre parcel. Construction of the storm drain is now underway by the District's contractor, Sierra National Construction. The water main construction work has been completed by District crews. Directors and staff discussed the easement and the related site improvements.

It was moved by Director Dains, seconded by Director Rose and carried 3-0 to adopt Resolution 11-2008 accepting an easement at 7124 Mariposa Avenue from K. T and Valerie Burton.

#### 2009 Budgets and Water Rates

AGM Kane delivered a presentation on major issues related to the draft Operating and Capital Improvement Budgets for 2009, and draft water rates for 2009. He summarized the information that was presented at the August 12, 2008 Regular Meeting of the Board, and presented revised budget and rate projections based on input from Directors at that meeting.

Following discussions at the August 12 meeting, District staff developed reduced budget alternatives. In identifying possible budget reductions, the focus was on those areas where the District has the greatest ability to control or influence the expenditures, and on those budgetary items with significant dollars involved. In particular, capital project expenditures, employee salaries and benefits, and repair and maintenance materials were identified as areas where the District could realize the largest dollar reductions, although not without affecting District programs and service levels.

Directors and staff considered a list of proposed budget line items reductions, along with a discussion of the possible impacts of those reductions to programs and service levels. It was recognized that significant reductions in cost are not likely to come without some affect on District operations and services.

With the proposed reductions, the draft Operating Budget as presented stands at about \$8.96 million, and the Capital Improvement Budget is proposed at \$1.65 million. In order to cover this level of expenditure in 2009 and to begin the process of rebuilding financial reserves for future years, an overall increase in water rates of about 20 percent would be necessary. A 20 percent increase would represent an increase of about \$7 per month to the average residential customer's water bill. While the budget numbers and rate adjustment estimates are still in draft form at this time, it was recognized that

adjustments in the order of magnitude now being considered will be needed for 2009.

Directors and staff discussed the District's financial reserves, and how varying levels of rate adjustments would affect those reserves. It was reaffirmed that after years of drawing upon financial reserves to pay for capital improvements and reduce the level of rate adjustments, the District's financial reserves are at a level that provides very little margin of safety for fluctuations in revenues or emergency expenditures.

Directors and staff also discussed debt financing as an alternative for providing funding for capital improvements. AGM Kane summarized the District's current debt, and the potential impacts of issuing additional debt including the need to raise water rates to meet additional debt service coverage requirements.

The consensus among Directors was that they were pleased by the significant budget reductions identified by staff to decrease the needed level of rate increase for 2009. They also expressed concern that some costs, particularly capital costs, were only being deferred and represented a potentially large future financial burden. Directors acknowledged that the costs of many of the goods and services used by the District have risen greatly, and that the District must increase rates to a level that will not only match its expenditures but provide for some increase in financial reserves. Many cost increases, most notably the 19 percent increase levied by San Juan Water District for treated water purchases for 2009, are beyond the control of the District. Directors encouraged staff to continue to control costs and find operating efficiencies where possible. Directors also noted that the District's staff is one of its most important resources, and that the District must adjust rates in a manner that will allow it to attract and retain great employees.

Directors asked staff to work to return with a proposal that will, if possible, reduce the required rate adjustment below the 20 percent estimate discussed earlier. AGM Kane stated that additional revisions to draft budget and rates will be made based on discussion at this meeting, and presented for further review at the Board's 2009 Budget and Water Rates workshop at their September 9, 2008 meeting.

#### CLOSED SESSION

Pursuant to subdivision (a) of Government Code Section 54957, Public Employee Performance Evaluation --General Manager, the Board of Directors convened in Closed Session at 8:03 p.m. Directors Dains, Dion and Rose, GM Churchill were in attendance.

President Dion reconvened the meeting into Open Session at 8:35 p.m. He reported that there was no reportable action taken by the Board of Directors during the Closed Session, and that this Closed Session item will be continued to the Regular Board of Directors meeting of September 9, 2008.

#### ADJOURNMENT

There being no other business to come before the Board, the meeting was adjourned at 8:40 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