

NEVADA IRRIGATION DISTRICT

BOARD OF DIRECTORS

MINUTES

October 21, 2009

The Board of Directors of the Nevada Irrigation District convened in regular session at the District's main office located at 1036 W. Main Street, Grass Valley, on the 21st day of October, 2009 at 9:00 a.m.

Present were John H. Drew, President; W. Scott Miller, Vice-President; Nancy Weber, Jim Bachman and Nick Wilcox, Directors.

Staff members present included Ron Nelson, General Manager; Tim Crough, Assistant General Manager; Marie G. Owens, Finance Manager/Treasurer; Gary King, Chief Engineer; John Kirk, Maintenance Manager; Yvonne Du Bose, Human Resources Manager; Jeff Meith, District Counsel; and Lisa Francis Tassone, Board Secretary.

The Minutes of the regular meeting and the special meeting held October 7, 2009 were approved as submitted.

CLAIMS & SUITS – Fultz

Rejected claim by Steven Fultz for loss of property value relating to District requirements for recording Parcel Map P-75985 (Placer County), on its merits and being untimely. M/S/C Weber/Miller

PRESENTATION: WATER MARKETING

Ron Nelson, General Manager, introduced Steve Macaulay of West Yost Associates, Marc Van Camp of MBK Engineers, and Jeff Meith, District's Legal Counsel. They provided the following presentation:

Water Transfers:

- Previous Water Transfers
 - 1991 – 1992 Department of Water Resources Drought Water Bank
 - 2009 Department of Water Resources Drought Water Bank
- Landscape for 2010 and beyond

Rules for Water Transfers:

- Statutory Framework
- Legal Principles of Department of Water Resources Guidelines
 - No injury to legal users
 - No unreasonable environmental impacts
 - No unreasonable effects on county economy

Statutory Authorities for Water Transfers:

- Water Code Section 382 – Authorizes local agencies providing water within its service area to sell surplus water or water “the use of which is voluntarily foregone . . .”
- Water Code Section 1725 et seq. – Authorizes procedures for temporary changes in points of diversion, place of use, purpose of use for purposes of a transfer. Temporary is defined as one year, or less (Note: other provisions apply to long term transfers).
- Water Code Section 1706 – Authorizes holder of a pre-1914 appropriative right to change point of diversion and place and purpose of use, including transfers. Does not require approval of the Water Resources Control Board.
- Water Code Section 1810 – Provides for the use of the State Water Project system for the conveyance of transferred water.
- Water Code Section 1435 et seq. – These provisions apply to temporary “urgent” changes, typically defined as needed very quickly to avoid waste and unreasonable use of water. By definition, this provision is not available if the other water transfer statutes could have been used.

Statutory Authorities Regulating Water Transfers:

- Water Code Section 386 – Water Board may approve only if it finds transfer will not injure any other legal user; will not unreasonably affect fish, wildlife or other in-stream beneficial uses; does not unreasonably affect the overall economy of the county from which the transfer is made.
- Water Code Section 1014 through 1017 – Protections granted for transferor. Non forfeiture during transfer; waste and unreasonable use protection; and beneficial use of water.
- Water Code Section 1726 – Accelerated processing of temporary change petitions.
- Water Code Section 1729 – Exemption of temporary changes from California Environmental Quality Act. Eliminates need for documentation, but Water Board must still make findings regarding an adverse impact.

“Real Water”

- Description of Actions Taken by Sellers for Water Transfers
 - Crop Idling
 - Groundwater Substitution
 - Reservoir Release (only practical option for the District)

Water Transfers – Risks and/or Consequences:

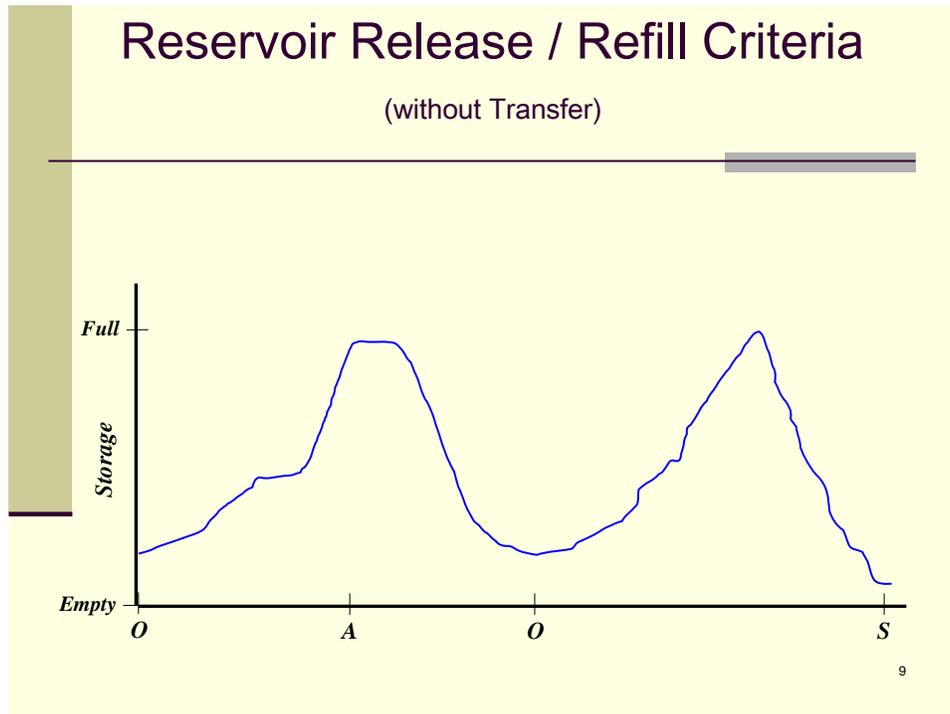
- Possible Multi-year Impact to the District
- Adequate Supply for District Consumption
- Contract Obligations (Hydroelectric Generation)
- Recreation Impacts
- Local/Political Opposition

Regulatory Process and Costs – One Year Water Transfer:

- Contract Negotiation (Buyer and Seller)
- State Water Resources Control Board Process
- Wheeling Agreement
 - Storage Agreement
 - Conveyance Agreement
- Environmental

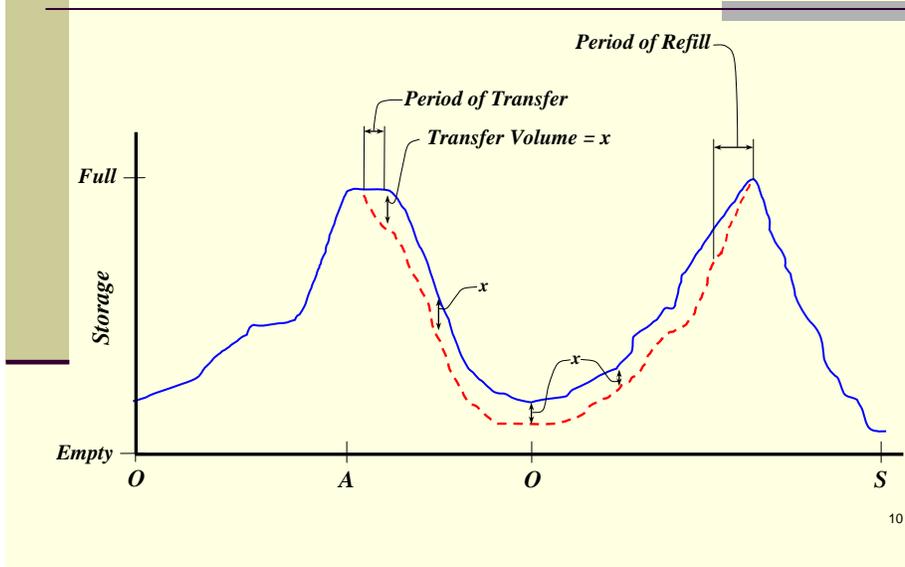
Quantification of Water:

- Establish Baseline for Reservoir Operations
- Year-end Reservoir Drawn Down Below “Baseline”
- “Refill Criteria” (Avoiding adverse impacts to others)



Reservoir Release / Refill Criteria

(with Transfer)



10

L9

Delta Balanced Conditions and Term 91 Curtailment Periods

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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1985												
1986												
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Director Wilcox asked if the refill criteria are always tied to balanced conditions as defined in the Coordinated Operating Agreement (COA) as opposed to Term 91 balanced conditions. The COA is an agreement between the Department of Water Resources and the US Bureau of Reclamation. This agreement governs their interaction in operating the State Water Project and the Central Valley Project in a coordinated manner. Under balanced conditions, they are operating the system to meet not only their export demands, but their Delta requirements. Under unbalanced conditions, there is enough water in the system to meet all of the in-basin demands, all of the export demands and environmental obligations, and there is water in addition.

Mr. Van Camp stated that Director Wilcox is “the right guy” to explain this process.

Director Miller asked why Director Wilcox is the right person to explain the process.

Mr. Van Camp explained that he is speaking to Director Wilcox’s previous work experience with the State Water Resources Control Board.

Director Miller stated that he is asking literally.

Mr. Van Camp stated that he knows Director Wilcox’s experience with regard to the development of the 1995 Water Quality Control Plan which established the requirements that the State and Federal projects have to meet in the Delta. Director Wilcox certainly understands that those projects are exporting water from the area of origin and he understands those terms that are used to protect in-basin users as compared to export interests.

Director Miller stated that he does not know Director Wilcox’s experience and Director Miller is listening to the presenters as the authorities and was curious why Mr. Van Camp was deferring to Director Wilcox.

Mr. Van Camp meant to say that he concurs with Director Wilcox’s explanation.

Director Wilcox asked Mr. Van Camp for confirmation that they both understand the process in the same way, and Mr. Van Camp answered in the affirmative.

Mr. Van Camp explained that Director Wilcox brings up a key point. Over the years, he has attempted to argue this on behalf of many of his clients. Water transfers for in-stream flows for fish and wildlife service on the San Joaquin system should be tied to Term 93 versus Term 91. The argument could be based on the area of origin concept, but this has yet to be argued at any great length.

Director Wilcox stated that as a matter of being conservative, one would want to base a transfer analysis on the COA balance conditions.

Mr. Van Camp stated that for purposes of planning for a District just starting the water transfer process, this would be a key assumption.

Potential Buyers:

- Location Relative to Delta
- Municipal and Industrial vs. Agricultural
- State Water Bank (Drought Water Bank)
- Independents

Potential Revenue \$/Acre Foot:

- Recent Price and Basis
- Potential Changes
- Deductions (i.e. Reduced Power Revenue)

Mr. Van Camp stated that in 1991, the Water Bank arrived at a price of \$125/acre foot. Roughly 800,000 acre feet of water was made available that year. The following year, the water was limited to ground water and reservoir release water for \$50/acre foot. In 2009, the price for water to the Water Bank was \$275/acre foot. The price was arrived at through an analysis of the revenue generated from a crop of rice. It was viewed that the major source of water was the idling of rice in the Sacramento Valley to make water available for export. Last year, there was a record high price for rice. In addition, there were challenges regarding transporting water through the Delta during the May and June period. Very little water was generated from crop idling in 2009.

Mr. McCaulay added that price also has as a driver its value to the buyer. In 2008, when there were transfers made, the price was \$175/acre foot. The buyers want to drive the price down as much as possible for the future, just as much as the sellers want to drive the price up.

Director Wilcox asked what the affect is on price if a transfer is made directly between a seller and a private buyer (i.e. San Diego Water Agency).

Mr. Van Camp stated that a private transfer would be in price competition with the Water Bank. A reservoir release type of transfer provides a great deal more flexibility. There is less risk up front.

Examples of Water Transfers:

- South Feather Water and Power Authority – Mr. Meith explained that South Feather has Lake Oroville below its lowest reservoir. The ratio of supply to demand is higher. They have more supply than their immediate consumptive demand. From a risk standpoint, they can handle more risk. They made their first transfer in 1990 at \$50/acre foot. Their last transfer was made to Metropolitan Water District and Kern County Water Agency last year. The price of this transfer was \$165/acre foot. The accommodation fee was \$70/acre foot. South Feather was hit with refill criteria. They could not restore the 10,000 acre feet they sold the year before. Therefore, they did not participate this year.
- South Sutter Water District – Mr. Van Camp explained that he works with South Sutter. Last year, the District made a decision to proceed with a pilot water transfer with numerous State water contractors. The surface water supply only provides a portion of their water needs. The reservoir was built to stop the

declining groundwater. Landowners, historically, were irrigating strictly from groundwater. The groundwater levels were declining in the early 1960's, so the reservoir was built simply to supplement that water supply. Due to other financial issues (Federal Energy Regulatory Commission relicensing, Corps of Engineer issues of maximum flood issues on their spillway, etc.), numerous public meetings were held to express the Board's desire to keep as much water for their users and expressing the financial impact to rice growers. The District moved forward with the transfer last year and this year. Because the reservoir is a fill and empty type of reservoir, and the fact that they can pump groundwater, they avoid reservoir refill criteria. This year, they sold the water to the Water Bank for \$275/acre foot.

- Yuba County Water Agency – Mr. Macaulay explained that Yuba County has been a seller in water transfers for many years. When all of the reservoirs were built on the Western slope of the Sierra, they were built during a time when there were not as many environmental regulations. When the hydropower plants were licensed by the Federal Energy Regulatory Commission and they were committed by the Department of Fish and Game, there were not as many requirements. Now, there is more pressure to release more water for environmental purposes. Yuba County was facing this situation a few years ago, but they continued to participate in water transfers. They have used this money to make improvements for their partner irrigation districts down-stream. This has been a huge benefit to their agency. What they worked out in a complicated agreement was to release additional water down the Yuba River to improve fish conditions and the environment with the ability to sell the water once it reached the Delta, after providing the environmental benefit. This has worked well for all involved.
- Placer County Water Agency – Mr. Van Camp explained that the Agency has struggled with making reservoir releases because they make those releases into Folsom. They have had struggles with regard to whether or not they should have refill criteria with the Bureau of Reclamation in developing any settlement arrangements with the Water Quality Control Plan. It is his understanding that last year, the Agency successfully provided water for a water transfer. He is unaware of the extent of their reservoir refill criteria.
- Merced Irrigation District – Mr. Van Camp explained that the District through the 1995 Water Quality Control Plan could see challenges ahead due to the fishery issues on the San Joaquin River system. Because of the relicensing process, they had a need to provide greater in-stream flows. They began water transfers during the 1990's, and have proceeded with transfers on a regular basis. They followed a format similar to Yuba County. They are somewhat unique because they have multiple groundwater wells owned by the District. They can do a reservoir release or a reservoir release backed up with groundwater which avoids the refill criteria.

In response to Mr. Nelson's question regarding any distinctions between regional transfers versus cross-State transfers, Mr. McCauley stated that he does not believe

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there are any regulations or laws that provide for this, but he does know that the California Water Plan emphasizes regional self-sufficiency and good public policy.

Director Wilcox asked if the District has modeling capabilities to analyze potential refill criteria impacts, so that the Board can make an informed decision on the benefits and risks.

Sue Sindt, Operations Supervisor, stated that the District has made a good start with modeling during the Federal Energy Regulatory Commission relicensing process.

Mr. Nelson stated that at this time, Staff does not have confidence in the model, but the capability is available.

Mr. Van Camp suggested that the District not rely on simulation, but evaluate the available data and match this data against the graph demonstrated earlier.

Director Wilcox expressed his thanks to the presenters. The discussion has been informative, and the topic of water marketing is technical and complicated. There are advantages and disadvantages.

Director Bachman thanked the presenters. He learned a great deal. Unfortunately, when water is really needed, no one has it, and when there is plenty of water available, everyone has it. Mother Nature has so much input.

Director Weber stated that she has been enlightened, and thanked the presenters.

Director Miller thanked the presenters. It appears to him as though the District would make a one-time sale, and wait to see if the refill criteria will allow the District to make another transfer. It is almost self-limiting.

President Drew stated that he did not see anything attractive about water marketing. What he dislikes about it is that it validates and perpetuates the existence of governmental bureaucracies. He is not in support of this. He thanked the presenters for appearing before the Board on this matter.

Meeting recessed at 10:35 a.m. and reconvened at 10:43 a.m.

WARRANTS

Approved the following warrants: Yuba-Bear Revolving Fund Nos. 22173 through 22232, No. 22179 being void; General Fund Revolving Account Nos. 47932 through 48084, Nos. 43828, 44422, 45642, 45779 and 47599 being void; Recreation Fund Nos. 2056 through 2088, No. 1726 being void; and Payroll Direct Deposit and Warrant Nos. 51412 through 51587, inclusive. M/S/C Miller/Bachman

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HIGHWAY 49 LA BARR MEADOWS ROAD WATER MAIN RELOCATION – Award of Contract No. 09-01

Vern Smith, Supervising Engineer, explained that Caltrans is installing a new intersection at Highway 49 and La Barr Meadows Road. Caltrans has directed the District to relocate the treated and raw water facilities in this area. This project was designed by Nevada City Engineering, Inc., and the District solicited quotes from 12 contractors. Three quotes were received of which Fletcher's Plumbing Engineering Contractors, Inc. was the lowest quote. He noted that there were two irregularities in their quote – a math error which was corrected, and two suppliers for equipment material source suppliers were listed. The District requested that one supplier be provided, and Fletcher's Plumbing Engineering Contractors, Inc. has provided a letter indicating the use of one supplier. Their quote remains the lowest quote. Staff has been satisfied with the work they have done for the District in the past.

In response to President Drew's question regarding cost-sharing by Caltrans, Mr. Smith explained that this has to do with right-of-way issues.

Awarded Contract No. 09-01 to Fletcher's Plumbing Engineering Contractors, Inc. in the amount of \$576,844 for the Highway 49 La Barr Meadows Road Water Main Relocation Project. M/S/C Miller/Weber

2010 – 2012 BUDGET: Preliminary Water Division Operations and Capital Revenue Budget

President Drew prefaced the discussion by stating the District has reserves. Currently, those reserves amount to approximately \$73 million. Knowing this, the question is often asked why rates need to be raised when the District has "all this money in the bank." He realizes that offsetting the reserve amount is debt in the form of obligations. The actual available reserves are significantly less than the total in reserves (as of December 31, 2008, the District's annual debt was approximately \$32 million).

Marie G. Owens, Finance Manager/Treasurer, pointed out that the District is entering into a State loan at the amount of \$11 million, part of which will be paid of with assessments by property owners. The District will share in about 50 percent of this debt service which will be paid for with capacity fees, if capacity fees are available.

Ms. Owens provided an overview of the District's reserve definitions and balances:

NEVADA IRRIGATION DISTRICT
WORKING CAPITAL & RESERVE ACCOUNTS

Approved 1/13/99, revised 3/28/01, 6/23/04, 10/27/04, 11/29/06 and 4/22/09

Preamble: The District desires to maintain a minimum overall reserve target balance of \$40 million, exclusive of restricted reserves. The District recognizes it is acceptable to drop below target levels on a temporary basis, so long as the District takes action to achieve the targets over the long run.

RESTRICTED RESERVES – WATER:

SYSTEM EXPANSION RESERVE – (Established 12/17/78, Rev. 12/12/79, 3/28/84, 11/13/85, 4/27/88, 1/13/99)

The System Expansion Reserve is established to provide funds for qualifying new projects and expansion of existing District facilities. Amounts authorized for expenditure shall be transferred to the Working Capital Fund. The fund shall consist of the following components:

- I. Raw Water System - the following monies shall be deposited to this component:
 - (a) - Surplus of the annual budget, up to an annual deposit of \$750,000.
 - (b) - Interest earned from this component.
 - (c) - A minimum balance of \$2,500,000 will be maintained in this reserve for unanticipated expansion related capital needs.
 - (d) - At the point in time, the District implements a capacity fee for annexed raw water customers, those funds will be deposited to this reserve.
- II. Treated Water System – All capacity fees received shall be deposited to this component together with all interest earned from this component. A minimum balance of \$2,500,000 will be maintained in this reserve for unanticipated expansion-related capital needs.
- III. Excess Footage - All funds received under Section 10.10.04 of the Rules & Regulations Relating to Water Service.

VOTER APPROVED DEBT SERVICE RESERVE

PG&E CONSOLIDATED CONTRACT = PAR B-15 – (Established 11/26/86)

The PG&E Consolidated Contract Reserve Fund shall be established with a minimum of \$250,000 to pay for water purchased from Pacific Gas & Electric Company. This reserve is a condition of the amendment of paragraph B-15 of Part II of the District's Yuba River Consolidated Contract.

CERTIFICATES OF PARTICIPATION – Acquisition Fund

IMPROVEMENT DISTRICTS – loan documents

CUSTOMER DEPOSITS

DESIGNATED RESERVES – WATER:

ACCRUED LEAVE RESERVE - (Established 12/12/79)

The fund shall be adjusted by the change in the value of the unfunded accrued vacation, sick leave and compensatory time on record as of the last day of each budget year. Interest earned on this fund shall be deposited to the Working Capital Fund.

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HYDROELECTRIC RELICENSING RESERVE - (Established 12/13/95, Rev 6/23/04, 11/29/06)

Up to \$500,000 annually shall be transferred from any excess funds generated in the hydroelectric division to the Hydroelectric Relicensing Reserve after first funding any deficit in the recreation division (11/29/06). Interest earned shall remain in the fund.

Funds in the reserve shall be used for relicensing expenses and after April 30, 2013, for any major replacement or repair of the facilities connected to the hydroelectric plants, at which time the reserve name will become the Hydroelectric Operating and Capital Reserve.

OPERATING, REPAIR/REPLACEMENT AND RATE STABILIZATION RESERVE (Established 10/27/04, revised 11/29/06)

Operating, Repair/Replacement and Rate Stabilization Reserve - The reserve may be used along with rate increases to fund anticipated deficits in the operations and maintenance portion of the water division providing rate stability to the District's customers and to fund major non-recurring repair/replacements as well as unplanned and unforeseen contingency expenditures. One half (1/2) of the net property taxes estimated to be received on the land assessed value only, shall be deposited to this fund. Interest earned on this fund shall be credited to the operations and maintenance portion of the water division's budget. The reserve balance should be approximately 25% of budgeted 3-year average annual operations and maintenance expenditures plus \$5 million for emergency capital needs.

WATERSHED STEWARDSHIP RESERVE (Established 1/13/99, revised 11/29/06):

The Watershed Stewardship Reserve shall be used for any expenditures incurred, including watershed related land purchases, in the maintenance and improvement of the District's watershed and its protection. The reserve shall be funded as follows:

1. Net revenues from all timber sales and grazing /gravel/mineral leases and
2. Non-watershed related land sales and
3. Interest earned on this fund shall remain in this fund.

The targeted reserve balance is \$5,000,000.

INSURANCE AND CATASTROPHIC OCCURRENCE RESERVE (Established 4/22/09)

To provide fund reserves to help, a) pay for claims in excess of insurance coverage limits, and b) provide immediate funds in case of a catastrophic occurrence. This reserve should have a minimum reserve balance of \$2,000,000 and a maximum balance of \$7,500,000. Interest earned on this reserve will first be used to pay for the current year's uninsured claims. Any excess interest shall remain in the reserve until the maximum balance is achieved. When the balance falls below \$5,000,000, each subsequent annual budget shall contain an appropriation of \$250,000 until the maximum balance is achieved.

OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY RESERVE (Established 4/22/09)

To provide fund reserves to cover the cost of retiree benefits other than PERS retirement including the semi-annual cost of living adjustment for retirees who retired under the AETNA Plan. The minimum balance in the reserve should be at least equal to the subsequent year's annual required contribution assuming a 7.75% discount rate, 20-year amortization plus \$100,000, as adjusted from time to time.

UNDESIGNATED RESERVES – WATER:

WORKING CAPITAL – (Established 12/12/79, Rev. 3/28/84)

The working capital fund shall consist of Treasurer's Cash, Payroll Fund, Petty Cash Funds, and any other Imprest Cash Funds, which may be established. All receipts and expenditures shall be processed through this fund.

RESTRICTED RESERVES - HYDRO:

BOND TRUSTEE FUNDS

BOND DEBT SERVICE FUND - loan documents

UNDESIGNATED RESERVES - HYDRO:

WORKING CAPITAL - (Established 12/12/79, Rev. 3/28/84)

The working capital fund shall consist of Treasurer's Cash, Payroll Fund, Petty Cash Funds, and any other Imprest Cash Funds, which may be established. All receipts and expenditures shall be processed through this fund.

SCHEDULE OF RESERVE BALANCES AS OF 12/31/08 AND RECOMMENDED CHANGES

	BALANCE AS OF 12/31/08		TYPE OF CHANGE	BALANCE AS OF 01/01/09	
Insurance reserve	\$ 2,000,000	(1)	\$ (2,000,000)	-	
Dam failure reserve	5,070,068	(1)	(5,070,068)	-	
Unemployment insurance reserve	200,000	(1)	(200,000)	-	
		(1)	7,270,068	\$ 7,270,068	Insurance and Catastrophic Occurrence Reserve
Accrued leave reserve	2,057,890			2,057,890	Accrued leave reserve
Medical claims liability reserve	2,195,843	(2)	(2,195,843)	-	
Rate augmentation fund	14,232,703		Name	14,232,703	Operating, Repair/Replacement & Rate Stabilization Reserve
Maintenance reserve	5,000,000	(3)	(5,000,000)	-	
Depreciation reserve	500,000	(3)	(500,000)	-	
System improvement-excess footage	135,784			135,784	System improvement-excess footage reserve
Raw Water System Improvement Fund	14,437,957		Name	14,437,957	Raw Water System Expansion Reserve
Watershed improvement reserve	2,626,991		NEW	2,626,991	Watershed stewardship reserve
Hydroelectric relicensing reserve	5,494,377	(3)	5,500,000	10,994,377	Hydroelectric relicensing
Water Working Capital	6,316,446			6,316,446	Water Working Capital
Improvement districts	221,050			221,050	Improvement districts
Improvement districts	331,113			331,113	Improvement districts
Recreation	(457,867)			(457,867)	Recreation
5th bond	(138,397)			(138,397)	5th bond
Treated Water System Improvement Fund	19,822,831		Name	19,822,831	Treated Water System Expansion Reserve
Voter Approved Debt Service reserve	254,457			254,457	Voter Approved Debt Service
PG&E Consolidated Contract	250,000			250,000	
Voter Approved Debt Service	1,464,231			1,464,231	Voter Approved Debt Service
Retirement Trust Fund	1,581,565	(2)	(1,581,565)	-	
		(2)	3,777,408	3,777,408	OPEB (Other Post Employment Benefits) Liability Reserve
					Hydro Operating & Capital Reserve
	<u>\$ 83,597,042</u>		<u>-</u>	<u>\$ 83,597,042</u>	

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SCHEDULE OF RESERVE BALANCES AS OF 1/1/09 AND RECOMMENDED MINIMUM BALANCES

BALANCE AS OF 01/01/09		MINIMUM BALANCE	FLOATING BALANCE
\$ 7,270,068	Insurance and Catastrophic Occurrence Reserve	\$ 7,500,000	
2,057,890	Accrued leave reserve	2,057,890	
14,232,703	Operating, Repair/Replacement & Rate Stabilization Reserve	11,840,000	
135,784	System improvement-excess footage reserve		135,784
14,437,957	Raw Water System Expansion Reserve	2,500,000	
2,626,991	Watershed stewardship reserve	5,000,000	
10,994,377	Hydroelectric relicensing		10,994,377
6,316,446	Water Working Capital		6,316,446
221,050	Improvement districts		221,050
331,113	Improvement districts		331,113
(457,867)	Recreation		(457,867)
(138,397)	5th bond		(138,397)
19,822,831	Treated Water System Expansion Reserve	2,500,000	
254,457	Voter Approved Debt Service		254,457
250,000	PG&E Consolidated Contract		250,000
1,464,231	Voter Approved Debt Service		1,464,231
3,777,408	OPEB (Other Post Employment Benefits) Liability Reserve	2,000,000	
	Hydro Operating & Capital Reserve		
\$ 83,597,042		\$33,397,890	\$ 19,371,194

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INSIDE DISTRICT TREATED WATER CUSTOMERS

<u>RESIDENTIAL</u>	2007	2008	CHANGE = 2008 - 2007	2009	CHANGE = 2009 - 2008
January	407,276.68	396,702.32	(10,574.36)	432,212.14	35,509.82
February	457,036.60	501,082.87	44,046.27	576,569.26	75,486.39
March	402,162.92	319,818.55	(82,344.37)	338,976.50	19,157.95
April	480,958.17	525,378.48	44,420.31	541,984.73	16,606.25
May	514,609.25	480,489.14	(34,120.11)	444,945.72	(35,543.42)
June	827,988.60	894,426.92	66,438.32	824,355.03	(70,071.89)
July	887,798.10	872,478.54	(15,319.56)	842,512.98	(29,965.56)
August	1,059,598.58	1,366,234.54	306,635.96	1,356,614.55	(9,619.99)
September	916,502.92	813,291.04	(103,211.88)		
October	680,191.71	1,080,807.59	400,615.88		
November	221,609.74	604,161.08	382,551.34		
December	454,320.72	691,208.50	236,887.78		
Total	7,310,053.99	8,546,079.57	1,236,025.58	5,358,170.91	1,559.55

<u>COMMERCIAL</u>	2007	2008	CHANGE = 2008 - 2007	2009	CHANGE = 2009 - 2008
January	95,260.85	118,293.06	23,032.21	130,624.53	12,331.47
February	110,957.62	83,098.13	(27,859.49)	100,868.65	17,770.52
March	89,156.54	91,177.97	2,021.43	95,833.63	4,655.66
April	101,379.27	83,398.83	(17,980.44)	82,552.75	(846.08)
May	111,109.54	122,079.11	10,969.57	115,824.69	(6,254.42)
June	168,266.77	131,422.64	(36,844.13)	126,743.50	(4,679.14)
July	170,664.38	215,358.20	44,693.82	201,318.91	(14,039.29)
August	217,465.48	207,870.11	(9,595.37)	203,562.91	(4,307.20)
September	184,022.10	203,349.32	19,327.22		
October	151,593.99	163,948.57	12,354.58		
November	75,469.54	175,319.16	99,849.62		
December	86,497.83	117,527.17	31,029.34		
Total	1,561,843.91	1,712,842.27	150,998.36	1,057,329.57	4,631.52

Ms. Owens stated that the Water Rates Committee asked her to prepare a revenue analysis for three rate options:

- 1) 0 percent
- 2) Proposition 218 Notice Rate
- 3) Average

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For treated water, the estimated additional revenue as a result of the Proposition 218 Notice rates would have generated approximately \$680,000. She made the assumption that the District would have the same amount of water sales. Likewise, for raw water, the estimated additional revenue as a result of the Proposition 218 Notice rates would have generated approximately \$150,000. To her dismay, when she compared the actual numbers to the budgeted numbers, she was not coming up with the revenue needed, which caused her to change direction in terms of projections.

Ms. Owens stated that the primary revenue is generated from the treated water inside District residential customers and treated water inside District commercial customers. When she compared the revenue to date for 2009 to revenue from 2008, she had a startling discovery. Although there was a rate increase for 2009, through August 2009, the District has only generated \$1,500 for treated water residential customers. For commercial customers, only \$4,600 in revenue has been generated. She began looking to see why the revenues were so low. The only explanation is that while the summer of 2009 was not dryer, it was cooler, so not as much water was being used.

Director Miller suggested that because the District raised rates, customers conserved. In addition, the economy has encouraged customers not to use as much water to minimize the amount of their water bills.

Ms. Owens agreed with Director Miller, but also pointed out that this did not seem to apply to the months of January through April.

PROPERTY TAX BY YEAR

FUNDA/C #	Account Name	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Estimate 2009	Estimate 2010	Estimate 2011	Estimate 2012	Estimate 2013
10	47110 Assessments	7,947,191	8,788,455	9,805,218	10,536,260	10,839,930	10,830,400	10,930,400	11,204,000	11,484,000	11,771,000
	47115 Asmt - Home Owner Exemption		163,858	114,997	112,258	74,683	100,000	100,000	110,000	110,000	110,000
	47120 Debt Service Assessments	86,109	98,537	128,072	139,451	131,274	90,000	90,000	110,000	110,000	
	47125 Debt Serv Assess Fees			(348)	(431)	(169)	(400)	(400)			
	47130 Admin & Collection Fees Pd.	(82,691)	(161,355)	(173,260)	(202,489)	(219,733)	(220,000)	(220,000)	(224,000)	(230,000)	(235,000)
	47135 ERAF III	(1,620,924)	(3,241,848)	(1,620,924)			(884,000)			884,000	
	SUBTOTAL FUND 10	6,329,685	5,647,647	8,253,754	10,585,048	10,825,985	9,916,000	10,900,000	11,200,000	12,358,000	11,646,000
20	47110 Assessments - Improvement Districts	93,286	92,158	92,958	94,535	404,688	324,500	334,000	344,000	354,000	365,000
	47130 Admin & Collection Fees Pd.	0	0	(1,932)	(965)	(1,273)	(1,500)	(1,500)	(1,600)	(1,600)	(1,700)
	47110 Assessments - Improvement Districts Miscellaneous Diff										
	SUBTOTAL FUND 20	93,286	92,158	91,026	93,570	403,415	323,000	332,500	342,400	352,400	363,300
	Total per Financial Statements	6,422,971	5,739,805	8,344,780	10,678,618	11,229,400	10,239,000	11,232,500	11,542,400	12,710,400	12,009,300
		-10.25%	-10.78%	46.14%	28.25%	2.28%	-8.41%	9.92%	2.75%	10.34%	-5.76%

Water Division Operating Revenue

Ms. Owens explained that property taxes are the second largest source of revenue to the District. She pointed out that in 2004, the State began taking the Education Revenue Augmentation Funds from the District. This occurred between 2004 and 2006 in the amount of \$6.4 million in lost revenue to the District. Now, the State will be taking 8 percent from the District's revenues (or an estimated \$884,000). She has placed the repayment from the State of this "loan" in 2012.

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Ms. Owens estimated that the District was going to receive \$400,000 more in property taxes for 2009. Currently, she is estimating the District will have a budgeted shortfall, primarily due to the decline in property values, limited construction and home sales lower than County assessed values which means less property tax revenues received by the District.

Ms. Owens referenced the Water Division Operating Revenue Budget. These revenues are supposed to pay for the District's operations and maintenance. This is what she considers the rate-based revenue Budget. Actual revenues through August 31, 2009 are \$11.7 million. Seasonal raw water sales are 111 percent (or \$3.9 million) of projected revenues. A few raw water customers reduced their purchase of water in order to conserve and save money.

Director Wilcox pointed out that raw water is sold as a rate contract as opposed to volumetrically.

Ms. Owens has reduced the projected revenues for treated water to \$450,000 instead of the \$680,000 originally projected. She did not do this for the seasonal agriculture water, because there was not a significant change based on the water purchased.

Ms. Owens explained that in order for the budget to be balanced, reserve withdrawals are made. Some reserve withdrawals are pre-planned. When a reserve withdrawal is made from the Operating Repair/Replacement and Rate Stabilization Reserve (ORR) for major non-recurring repairs and replacements, this is a planned withdrawal. In 2010, \$2.2 million has been projected as a reserve withdrawal, and in 2011, \$4.6 million has been projected. A reserve withdrawal is not projected amount for 2012, because there will be no ORR reserves left. She added that an alternative is to borrow money, but she would not recommend doing this because money should never be borrowed to pay for operations and maintenance expenditures.

Water Division Capital Revenue

Ms. Owens explained that actual revenues for 2009 are significantly lagging behind the budgeted revenues. The District receives the single largest property tax payment in January. This is accrued as revenue in December, and due to this reason, it appears as if property taxes are significantly behind. The other item not yet received is the State Revolving Loan for the Cement Hill Water Supply Project. This will offset the expenses that will be incurred for this Project.

Ms. Owens pointed out that the projected property tax revenues have increased slightly, but the funds the State will be borrowing from the District have not been taken out of this projection. Interest income has been significantly reduced because interest rates are down, and the District's reserve balances are down.

Ms. Owens stated that a reserve withdrawal from the treated water capacity reserve in the amount of \$13.9 million has been budgeted to occur at the end of 2009. This would

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cover primarily the E. George Water Treatment Plant Expansion Project and several other treated water expansion projects. If reserve withdrawals are made through 2012, the minimum reserve balance will be the only remaining funds in this reserve.

The only way the Budget can be balanced in 2011, is to issue Certificates of Participation in the amount of \$21 million. Property taxes would be used to pay the debt service because there is no other source of revenue.

She referenced year 2012 for Raw Water System Improvements. An amount of \$15.4 million is projected for a reserve withdrawal. If \$5.1 million is withdrawn in 2009, and \$9.8 million is withdrawn in 2010, there will not be enough funds to withdraw \$15.4 in 2012. It appears that the District will need to borrow \$15 million in 2012 if the projects move forward.

Director Wilcox stated that the Board needs to think about the budget presentation in conjunction with the water marketing presentation as a potential source of income.

Ms. Owens stated that the existing supplemental water sales contract has “limped us along.”

Ms. Owens asked the Board to provide the Water Rates Committee direction with regard to the budget and rates.

President Drew stated that he would look to the Water Rates Committee to evaluate the options and report back to the Board.

Director Bachman stated that he has not seen any hydroelectric revenues.

Ms. Owens informed the Board that she will be presenting the Hydroelectric Division and Recreation Division Budgets at the next Board of Directors meeting.

WATER RIGHTS – Amendments to Permits

Ron Nelson, General Manager, reported that the State will be providing notice regarding petitions the District filed for amendments to water rights permits. More information will be provided to the Board at the next meeting.

LEGISLATIVE UPDATE

Ron Nelson, General Manager, reported that the Governor, the leadership, the Senate and Assembly continue to meet in closed session regarding water legislation. The legislation involves Delta governance, mandatory conservation and the bond issue. It is his understanding that the legislature could meet rather quickly once the discussions end in closed session.

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CLOSED SESSION was declared at 12:31 p.m. pursuant to Government Code Section 54957.6 to provide direction to the District's designated bargaining representatives – Nelson, Crough, Owens, DuBose and Meith – regarding 2009/2010 salary/benefit/working conditions.

MEETING RECONVENED in regular session at 12:42 p.m.

There was no action to report from closed session.

MEETING ADJOURNED at 12:42 p.m. to reconvene in regular session on November 4, 2009, at 9:00 a.m. at the District's main office located at 1036 W. Main Street, Grass Valley, California.

Board Secretary

Attest a true record of actions
had and taken at the above and
foregoing meeting our presence
thereat and our consent thereto.

Director
Division I

Division II

Division III

Division IV

Division V
