

**MINUTES OF THE SPECIAL MEETING
OF THE BOARD OF DIRECTORS OF THE
KINNELOA IRRIGATION DISTRICT
August 26, 2006**

MEMBERS PRESENT: Directors Kilburn, Pickard and Sorell.

STAFF PRESENT: Melvin Matthews and Shirley Burt

CALL TO ORDER: The meeting was called to order at 0935 hours by the **Chair of the Ad Hoc Budget, Steve Sorell**

DISCUSSION OF GENERAL MANAGER'S MEMO AND PROPOSED BUDGET

Director Sorell questioned

- Whether the \$75,000. FEMA funds had been spent and the **General Manager** stated it had not been spent and that those funds had not yet been received since it was a large project.
- Do we have a significant number of new services, and the **General Manager** replied that most of the new homes in the new tract are occupied and no new services are anticipated.
- If the 16% increase in electrical cost is not too high since it is already included in the forecast amount and the **General Manager** agreed since we have already experienced some of those increases. The **General Manager** explained however that we may have pumping costs associated with selling water to Pasadena. **Director Sorell** stated that if we aren't budgeting income from the sale of that water then we should not be budgeting that electrical expense.
- Whether we don't have a strong case for a rate increase this next year since we are showing a net cash flow of -\$137,000. for 2006 and a -\$96,000 for 2007 which is a cumulative amount of -\$240,000. The **General Manager** explained that includes the projects and there are some projects that were deferred so in essence we have been building up some savings and are playing catch up. **Director Sorell** stated that in view of the deficit, the BIGHORN legal decision, etc. that we need to stay with our commitment in going for regular small increases rather than saving it up and going for a humongous rate increase with all of the publicity that generates. He thinks that it may make sense to look for a 2%-5% rate hike for this year but that depends upon where we end up this year.
- Whether the health insurance is going to increase 13% and the **General Manager** stated we had already received an Email to that effect.
- Whether telephone costs could be reduced and **General Manager** stated he is currently researching and receiving competitive bids.

DISCUSSION OF DETAILED BUDGET ITEMS:

The **General Manager** made the following statements regarding the income items

- No rate increase anticipated
- No water sales included as amount of sales dependent on the amount of rain and the amount of water we wish to put into long term storage.
- Invoiced Sales includes the 15% administrative charge
- Capacity charge includes Mr. Barsten's new service

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Director Sorell questioned the following items in the detailed expenditures

- The basis for the \$50,000 for outside contractors and the **General Manager** stated that was his estimate for leak repairs.
- Whether the truck equipment and maintenance would be that high since the plan is to replace two trucks-- shouldn't that item decrease and the **General Manager** stated that 75% of the expense this year was incurred by the two trucks that are being kept.
- Whether the maintenance costs could be reduced by seeking routine services more economically and the **General Manager** said he would investigate. The **General Manager** pointed out that maintenance has to do with the age of the vehicle as well as the mileage.
- Whether the Engineering over budget is FEMA related and the **General Manager** stated that it is and that next year he will show it without including the FEMA amounts.
- Whether the pennies could be eliminated from the budget amounts to provide more space
- Whether the telephone expense can be reduced and the **General Manager** pointed out that part of the expense is due to the off premises extensions which we need because the cell phones do not work in certain areas. He stated he is still investigating the possibility of achieving a cost saving.
- What the computer software budget includes and the **General Manager** stated that it includes software fees, upgrades to existing software, SCADA system, and hardware maintenance.
- What the tank maintenance budget includes and the **General Manager** replied that \$70,000 of that is the tank maintenance agreement and the rest is the continuation of the installation of the FLO-LOC earthquake valves

TANK MAINTENANCE PROJECT:

The **General Manager** explained that a record of the tank services being received under the contract are being recorded so that the District is aware of the services being provided.

PIPELINE PROJECT:

The **General Manager** explained that 75% of the pipeline budget amount will be spent on the K-3 pipeline project and 25% on the Fairpoint/Sierra Madre Villa project. He noted that no specifications or engineering has been done on these projects as yet.

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Director Sorell stated that he was not in favor of using Improvement District No. 1 funds to pay for the Fairpoint/Sierra Madre Villa project even though the project is within the Improvement District boundary. He explained that he thought the money (approx \$19,000) should be returned to the residents within Improvement District No.1 because philosophically it was established to pay for a group of discreet fixed projects that represented the entry price for that area to join the KID. The **General Manager** stated that he was very concerned that a great deal of that money would be eaten up in expense in determining whom to refund the money -- first of all do you return it to the person that paid it or the current property owners. **Director Sorell** stated that the money should be repaid to the current owner because the obligation goes with the land, it is not individual to the person noting that in basic real estate law any obligation that goes with the land accrues or benefits whomever owns the property at that time. The **General Manager** stated in his opinion it is going to cost \$19,000. in expenses to refund that money.

Director Sorell stated that he thought that would only occur if there develops controversy. The **Administrative Assistant** noted that part of the reason for the overage being collected was because of penalties that were collected from persons who did not pay on time. **Director Sorell** replied that then argues more for that money going back to the KID as a whole but it doesn't make sense that penalty money should be used to pay for a capital expenditure project that is coming up years afterward. The **General Manager** stated that he has no objections to returning the money and if the Board approves then he will see that the money will be refunded fairly and equitably, but he wanted everyone to understand that it might not be accomplished as easily as one might think. **Director Sorell** stated he would contact Mr. Kruse regarding his suggestion and determine if he sees any legal problems involved with the suggestion. The **General Manager** expressed his concern that we not incur a large legal expense and **Director Sorell** reassured him that he would not incur a large expense in discussing the matter with Mr. Kruse.

TRUCK PROJECT:

Director Sorell asked whether the 89 truck had a lift gate and the **General Manager** replied that it does and that will complicate getting rid of the 89 truck which was a factor that he had not considered when writing the memo. He stated that the a lift gate was not considered when obtaining the price for a new truck but a utility service body was included because the cross bed toolboxes on the current trucks are not very useful. He stated that a lift gate would cost approximately \$3000. and would require a different configuration of the truck body. The concept is to obtain at least one new truck. He further explained that another possibility is to transfer the utility body on the 89 truck to a new truck but part of the problem is that the 89 truck is not easy to drive due to reduced visibility and other factors. However it is clear that the 92 Truck needs to be retired so maybe the 89 can be evaluated later. **Director Sorell** further explained that leasing versus financing all depends on the rates that are gotten. Sometimes leasing is very expensive, other times it is competitive with purchasing.

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CONCLUSION

Director Sorell made the following statements

- There are no specific numbers in the proposed budget that need changing at this time but there are some that need to be investigated further such as electrical costs and the General Manager has made note of those.
- The capital budget needs to be reviewed on the matter of one truck versus two trucks.
- A single presentation of the capital budget needs to be done.
- Since the expenses are going up this is the right time to consider a rate increase and in addition we have projects out there that need to be done.
- The facilities budget should include sprucing up the office such as painting and carpeting.

Respectfully submitted,

Shirley Burt
Secretary to the Board