

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS OF THE
KINNELOA IRRIGATION DISTRICT
December 20, 2005**

MEMBERS PRESENT: Directors Barkhurst, Brain, Krieger, Pickard, and Sorell.

STAFF PRESENT: Melvin Matthews, Christopher Burt, and Shirley Burt

CALL TO ORDER: The meeting was called to order at 1935 hours by the Chair, Richard Barkhurst. He noted that there was a quorum of the Board present. The Agenda was unanimously approved as presented.

PUBLIC COMMENT

No members of the public were present.

K-3 WELL REPAIR

At the request of **Director Barkhurst** the **General Manager** reviewed the additional expenses that are expected for the K-3 well repair which he stated are minor and will be reported to the Board as the invoices are received. He stated that there is serious consideration being given to the need for a Variable Frequency Drive for the well pump motor which is a significant expense as one estimate has been for \$30,000 and another for \$20,000. He explained that this project would come before the Board for approval because of the expense of the project and should probably be considered as a separate upgrade project and a good investment to extend the life of the well.

REVIEW SALE OF SURPLUS WATER CONTRACT WITH CITY OF PASADENA

The **General Manager** stated that because the prior contract had expired, a new contract needed to be negotiated in order for the District to sell "Surplus Groundwater" to the City, and that the contract before them is the mechanism by which that can be done. He explained that the difference between this agreement and the prior one is that in this agreement the District is not compelled to sell the water to the City, but that the District has the option to do so in the years that the District has excess water.

Director Sorell questioned whether the District still owes water to the City and the **General Manager** explained that the water currently owed to the City was "Emergency Water" which is different than "Excess Groundwater". He stated that that has to do with the "Emergency Interconnection Agreement" which is still in place and allows the District to repay back water rather than dollars. He noted that that Contract will also be renegotiated at some point and will include additional interconnections and other things.

Director Pickard questioned whether the District was currently transferring water back to the City of Pasadena and the **General Manager** stated that the District is in the process of doing so at this time.

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Director Krieger questioned as to how the charge for the water is determined and how the MWD rate figures into the pricing.

The **General Manager** explained -

“If you are pumping our water rights then what comes into play is our expenses, both direct and general expenses, and then deciding what is a reasonable profit level. The times the MWD rate is a matter of convenience for both parties in computing what Pasadena owes us. You don’t start off with that amount, basically you consider all of the expenses involved and sort of back into it as an easy way of doing the computation, otherwise each time you sell water it becomes a new exercise in deciding what the price is and the opportunity may have passed by if it takes that type of determination by us as to what we should sell it for and by the City to get approval to buy at that rate, whereas this puts an agreement in place that can be used at any time quickly without any further involvement.”

Director Krieger then asked which party gets to determine under which formula the transaction takes place, the B number which looks lower or the A number.

The **General Manager** replied-,

“It is strictly our determination of how we want to do it. It could be a mixture of selling excess groundwater or pumping the city’s groundwater rights. The actual difference in the ultimate cost, although it might appear that the second scenario is at a lower cost, all depends upon what you establish for the parts that go into the formula for the costs and those are not fixed, as those can change with time.”

Director Sorell questioned whether that use to be called “leasing our water rights” versus selling.

The **General Manager** stated --

“That it is a little bit different than leasing our water rights. As you know when we had a shortage we leased water rights from the San Gabriel County Water District but we did the pumping, using our own facilities and the rate at that time was \$200. per acre foot. So in other words the water rights now has a going rate of \$200 per acre foot. And so you can see that over and above what would be the cost for leasing additional water rights and selling water to the City of Pasadena, there is a delta there. Obviously if another water company has excess rights then the City of Pasadena, for example, could do a lease agreement with San Gabriel County Water District just like we did and whether it is still \$200. per Acre Foot is a matter of negotiation. But they would have that option as well if they want to pump their own water but then they have all of the costs of pumping and delivering the water through their system whereas if they buy it from us those costs are all included in that rate. But we can decide whether we want to sell the water and the City obviously can decide whether they want to buy it at that particular rate or whether they want to buy water from MWD or lease pumping rights from another agency. So they have options as well and obviously it needs to be a good deal for both parties for a transaction to take place. So this agreement was written to be beneficial to both parties.”

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It was M/S/C – (Pickard/Krieger-5/0)

“THAT RESOLUTION 2005-12-20C –APPROVING AN AGREEMENT FOR THE SALE OF EXCESS GROUNDWATER TO THE CITY OF PASADENA AND THE DELIVERY OF CITY OF PASADENA UNPRODUCIBLE WATER” BE APPROVED”.

REVIEW DIRECTORS’ COMPENSATION POLICY

The **General Manager** stated that this policy was presented to the Board at the last Meeting as a draft copy with several options that were discussed at that meeting. He noted that the copy before the Board now has the optional areas filled in as it will appear in the Rules and Regulations.

It was M/S/C-(Sorell/Pickard-5/0)

“THAT RESOLUTION 2005-12-20B-DIRECTOR’S COMPENSATION AND EXPENSE REIMBURSEMENT POLICY-BE ADOPTED AS PRESENTED.”

REVIEW POLICY REGARDING RESERVES AND CAPITAL ASSETS

The **General Manager** called the Board’s attention to the memo from the District’s Counsel and also to his memo which describes what he is trying to accomplish and stated that the most notable part of his memo is in the second paragraph stating that the District does not now have any reserve accounts and that this particular resolution establishes a policy but does not establish any reserve accounts which would be a separate process. He noted that the resolution before the Board for consideration is not a resolution to establish reserve accounts, just adopting a policy if and when the Board would decide to establish such accounts.

Director Barkhurst recommended that the first **WHEREAS** of the Resolution be changed so that the words “has accumulated” be changed to read “may establish”.

The **General Manager** stated that that is certainly consistent with his analysis as to where the District now stands, noting that the original resolution was provided by the attorney and that he has made some changes in keeping with the discussion at last month’s meeting.

Director Brain questioned as to whether this Policy could be amended at any time and the Chairman replied yes. He then questioned as to whether the Board should formalize two kinds of reserve accounts similar to some of the ones that are mentioned in the attached memo from ACWA because the District does have undivided earnings.

Director Krieger questioned as to whether the counter argument to the reserve accounts is to maintain maximum flexibility.

Director Brain called their attention to some of the examples in the attached memo from ACWA, and stated that in his own view the District has set aside two things done with the undivided earnings at the end of each year. He noted that a couple of years ago, the Board decided to take the \$250,000 settlement that was negotiated, and not use those moneys for

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operational expenses or capital expenditures, but to keep it for unforeseen events such as the one that was negotiated to get the money. He further stated that any company has to have some liquidity because the budget never comes out right on the nose and sometimes a couple of adverse circumstances occur or you don't get the cash flow that you need and therefore you need a reserve for that whether you call it a reserve or not.

The **General Manager** stated that his purpose was to establish an initial policy and then as the Board sees fit, especially with the input of the Treasurer, if it seems appropriate a reserve could be set up in the future.

Director Sorell stated that currently he does not consider that money to be a reserve but just part of our current fund and that really can't be touched by anybody.

Director Krieger questioned as to whether a lot of the capital expenditures that the General Manager had talked to him about, might be funded from a reserve account that is tabbed for capital expenditures. He explained that these expenses would come out of cost of goods or depreciation, and the money is put aside to do what is called Maintenance Cap. Ex. and it is not considered new projects but rather that you are improving or maintaining what you already have. He explained that it is truly an expense that is spread over a long period of time and therefore this money is not considered undivided earnings that might have to go back to the rate payors.

Director Sorell replied that there is no issue as to whether these earnings go back to rate payors.

Director Brain stated, after checking with the attorney, it might be advisable to put down what our policy is at budget time. He noted that in the past the Board had an informal policy that \$100,000 be kept in surplus, and that when the \$250,000 was received he made the motion that the \$250,00 should be earmarked as "do not touch except in case of an emergency", and that the policy was adopted. In addition it was agreed that that amount should be in addition to the \$100,000 which would make the total \$350,000.

Director Sorell questioned that if there is an informal policy that seems to be working, why does there need to be a change?

Director Brain replied that the \$250,000 is in writing and that the other is not, and in addition he thinks it is prudent to show the authorities that you do have a definite policy and that you do have a plan for making sure you have covered the likelihood that some events might happen.

Director Sorell stated that he thought the District was under the radar with the size of our funds.

The **General Manager** noted that flexibility is needed and the District needs to strike a balance. He further noted that the Board's direction has been followed and the District does have savings in addition to the \$250,000.

It was M/S/C-(Sorell/Pickard-5/0)

"THAT RESOLUTION 2005-12-20A-ADOPTING A POLICY REGARDING RESERVES AND CAPITAL ASSETS- BE ADOPTED AS REWRITTEN".

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REVIEW VOSBURG BOOSTER REPAIR

The **General Manager** stated that an inspection of the submersible Vosburg pump and motor, which has been in service since 1980, showed that repair or replacement was needed and that he is recommending a replacement of these items as submersible pumps are not really a repair item. He reviewed the proposal received for replacing the equipment noting that there are two options, one for a 20 HP motor which would provide 275 GPM and one with a 25 HP motor which would provide 330 GPM. He stated that the Facilities Supervisor is recommending option #2 because in the past the pump has been undersized causing some operational difficulties in heavy usage from the East Tank, in which the demand could not be met. He further stated that there is no alternative at this point as both the pump and motor are shot and by doing this repair now the District will get a reliable system that can be depended upon during the time the East Tank is out of service for repair and also provide years ahead of useful life and more importantly avoid having to make this repair on an emergency basis.

Director Krieger questioned as to which budget line item this cost would appear and the **General Manager** replied that since it was unbudgeted expense it would appear under Capital Expense.

Director Sorell questioned as to whether a second proposal had been requested and the **General Manager** explained that for this size project there was only a single source, noting that our rules and regulations does not require a second bid for projects between \$5,000 and \$25,000. He further stated that he thought this was a reasonable bid, based on prior experience.

It was M/S/C –(Sorell/Krieger-5/0)

“THAT THE BOARD APPROVE THE EXPENDITURE OF \$9,644 FOR OPTION #2 TO INSTALL A 25 HP PUMP/MOTOR AND THE EXPENDITURE OF \$2,946 COST AND LABOR ASSOCIATED WITH THE REMOVAL, TESTING, AND REPLACEMENT.”

REVIEW STATUS OF IMPROVEMENT DISTRICT NO. 1 FUNDS

Director Barkhurst reviewed the letter from the District’s Counsel which outlined three legal methods by which the District could dispose of the funds remaining in the Improvement District No. One account.

The **General Manager** recommended that the funds be consolidated into the District’s principle bank account and that on the financial statement a liability fund be established against which any pipeline projects in that District could be charged.

Director Barkhurst noted that the sum is approximately \$19,000. and that there are three existing delinquent accounts that are being charged penalties.

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It was M/S/C/-(Sorell/Brain-5/0)

‘THAT THE APPROPRIATE REMAINING BALANCE OF THE IMPROVEMENT DISTRICT NO ONE ACCOUNT BE TRANSFERRED INTO A SPECIAL LINE ITEM IN OUR GENERAL OPERATING STATEMENT TO BE USED IN THE OPERATION OF THE WORKS OF THE IMPROVEMENT DISTRICT.’

REVIEW PROPOSED RATE INCREASE

Director Sorell passed out a proposed notice to be sent to the customers regarding the rate increase.

Director Barkhurst requested that the General Manager provide a brief analysis of what he considers the minimum amount the District needs for the calendar year 2006 to continue to execute replacement projects under the Master Plan.

The **General Manager** stated that he had reviewed the Master Plan and came to the conclusion that \$100,000 was needed for items in the Master Plan. He then presented a chart showing five different rate schedules that would generate certain amounts using suggestions that had come out of the budget committee meeting.

Director Pickard stated that it was his understanding that the moneys generated with the rate increase would be used for the year 2007, and the General Manager agreed.

The Board then reviewed the financial impact each of the suggested five rates would have on the rate payors and there was consensus that options A, B, and D be eliminated from consideration.

Director Krieger questioned whether in 2006, if revenues are flat, we get through \$140,000 of the \$235,00 Cap. Ex. budget with no increase, why this items are budgeted as Cap. Ex. when we are not adding to the value of the plant but just maintaining it. He further questioned why with the approximately \$540,000 in hand we do not spend that for the expected expenditures and ask for a rate increase when the money is needed.

Director Sorell replied that \$350,000 of the \$540,00 is the \$250,000 Emergency fund and the \$100,000 cushion that the District keeps for unforeseen events.

Director Krieger then questioned why the need for capital projects is \$234,000 as budgeted when, if the projected cost of the Master Plan over 30 years is \$3 Million we should only need \$100,000. He further questioned as to whether we are trying to play catch up.

The **General Manager** replied that part of the \$540,000 is \$80,000 FEMA money and also the District is trying to catch up as there are a number of projects that have been postponed due to lack of funding.

Director Sorell noted that are Planned Maintenance expenditure have also gone up due to the Tank Maintenance Contract which hopefully will take some of the lumpiness out of our expenditure budget.

Director Krieger then questioned why we are sitting on so much cash and why are we not spending the money faster.

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The **General Manager** replied that certain projects can only be done at certain times of the year due to fire season and heat waves. He further noted that pipeline projects are more difficult and also that the Master Plan is looking for a twenty year not a thirty year completion date.

Director Barkhurst noted that capital type projects that have been deferred over a 15-20 years period have a higher predictability of failure so that it is not prudent to spend all of the cash when there could be a \$200,000 or a \$300,000 unanticipated project.

Director Sorell noted also that the Planned Maintenance costs are now higher with the Tank Maintenance Contract.

Director Krieger questioned whether the District could spend the money fast enough and the Facilities Supervisor noted that some of the pipeline projects will be costly and funds need to be built up to meet expenditure.

The **General Manager** noted that last year the K-3 pipe line project and the K-3 Well project used up all of our resources. He further explained that for economy the pipeline projects need to be done in an orderly fashion. He also stated that it was his goal this year to get as many of the capital projects done as is physically possible.

Director Sorell explained that the money being raised by the proposed rate increase is for the year 2007 and the funds have to be accumulated ahead of the expenditure.

Director Krieger asked if there was some consensus about a line of credit. The General Manager replied that he was investigating the matter and that he will report back to the Board.

Director Brain noted that often what comes with a line of credit is a lot of control.

Director Barkhurst stated that if the District were to sign a formal line of credit there would be a frontline expense of usually ½ percent but more important there would be a number of required quarterly reports or we would have to maintain a minimum amount of cash.

The **General Manager** stated that he would prefer to do the projects out of cash in the Bank rather than to borrow money and that he views the Line Of Credit more of an emergency type of financing.

Director Krieger stated that he thought it would be possible to turn the capital projects account into a more rigorous inventory of what is going to need to be fixed over time, and stretch it over 20 or 15 years as these are all expenses and even though it is lumpy it could probably be smoothed out. It noted that it would make it easier to say that this is the true cost and that is why we are raising the rate.

The **General Manager** replied that there are restrictions upon the way that the District presents its financial records and so even though some of these may appear as expenses we are regulated according to accounting principals the way that our financial statements appear and there could be a problem if we started to expense these items.

Director Barkhurst noted that Director Krieger is speaking as a realist, not an accountant, who says that the District has projects that all take cash and let's make sure we understand how much cash we think we are going to have to spend over the next X number of years. In other words, let's look at the realistic finite life of a thing (Pump, Pipeline, Well) and figure when it was

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built, what is the expected life, what was the expected maintainence over its life and have we spent that money to maintain it. Unfortunately in many cases the answer is no, so therefore because of a lack of cash, you have a long history of deferred maintainence. He further stated that currently the Board's job is have staff do the best they can, either on their own or using consultants, figuring what the expected life is of these series of things that we own, what is the highest probability of failure, and put a price tag on the cost to rebuild or replace in case of failure and then use that for basis for our projected annual spending.

Director Krieger stated that there is software that could be used to develop these costs but he doesn't want to hold up the vote until that could be done.

Director Barkhurst stated – “We have done what needs to be done. We are where we are. We are at the point now that we are monetizing what the probable project expenses will be for next year. Management has said that in order to maintain reserves for the relativity high probability of unknown failure, and setting aside the \$250,000 dollars where we have at least an informal ethical commitment to a group of homeowners to use that money for specific projects, that means that we minus out that amount and take into consideration that we have all of these probable unknowns that will occur, we think that to be prudent we need an incremental, Mel says approximately \$100,000, to maintain prudence, continue our replacement projects and take care of all of the unknowns that we know are there but cannot be monitored.”

The **Facilities Supervisor** noted that one of the projects that puts a twist in things that we know is coming will be the digging of a new well, which is approximately \$500,000 at minimum.

Director Barkhurst stated that from a needs assessment standpoint, the General Manager thinks he needs \$100,000 and from a political standpoint he thinks that the Board should be as conservative as possible and stick close to the minimum needs rather than try to get a little bit more, thus, using from the medium usage customer, going from \$98 to \$111 looks better than going to \$113.

The question was raised as to the time frame for this rate increase and **Director Barkhurst** stated that he did not think the Board should lock themselves into a time frame.

Director Brain questioned why, based on the updated Master Plan, did the Board decide that a 4% increase was needed last year whereas this year the Board is saying 13% is needed, and that this is based on the projects to be done in 2006.

Director Sorell explained that when the budget committee met, they considered a multi year look and reported this at the Board Meeting justifying the rate increase needed to anticipate the costs of several years beyond 2006.

Director Brain stated the Board should be prepared to justify the expenditures anticipated in the Master Plan.

It was M/S/C –(Sorell/Krieger-5/0)

“THAT OPTION C BE ADOPTED INCREASING THE BASIC RATE TO \$34.00 PER MONTH AND THE COMMODITY RATE TO \$2.30 PER UNIT AS OF JANUARY 1, 2006.”

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It was M/S/C-Barkhurst/Krieger-5/0

“THAT THE BOARD EMPOWER THE TREASURER AND THE GENERAL MANAGER TO COME TO CONSENSUS ON AN APPROPRIATE COMMODITY RATE INCREASE LETTER, CIRCULATE THE LETTER TO THE BOARD MEMBERS FOR THEIR REVIEW, WRITE A FINAL DRAFT, CIRCULATE IT TO THE BOARD MEMBERS FOR THEIR FINAL REVIEW, AND SEND THE LETTER OUT IN A TIMELY WAY.”

APPROVAL OF THE PROPOSED BUDGET FOR YEAR 2006

Director Barkhurst stated that the budget being considered for approval appears in column C of the budget worksheet before them.

Director Krieger questioned whether the revenues projected take into account the water sales being anticipated to the City of Pasadena and the **General Manager** stated they do not because whether any sales take place is totally dependent upon the weather, and any income received would be evaluated at the end of the year as to their effect on the budget or future rate increases.

Director Krieger questioned whether the electrical costs takes into account any rate increases and the General Manager stated that it is unknown at this time how the increases will effect the District's rate schedule.

It was M/S/C/-(Sorell/Pickard-5/0)

“THAT THE BUDGET AS SHOWN IN COLUMN C OF THE BUDGET WORKSHEET BE APPROVED.”

GENERAL MANAGER'S REPORT

The General Manager stated that he would take questions on his report as submitted.

REVIEW OF THE MINUTES

The minutes of November 15, 2005 were reviewed and unanimously approved.

REVIEW OF FINANCIAL REPORT

The Financial Report of November 30, 2005 was reviewed by the Treasurer and approved for filing as presented.

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ITEMS FOR THE NEXT MEETING

There were no items suggested for the next meeting.

ADJOURNMENT

The meeting was adjourned at 2128 hours and the next meeting will be on January 17, 2006.

Respectfully submitted,

Shirley Burt
Secretary to the Board