

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS OF THE
KINNELOA IRRIGATION DISTRICT**

June 20, 2006

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

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

CALL TO ORDER: The meeting was called to order at 1936 hours by the **Chair, Richard Barkhurst**. He noted that there was a quorum of the Board present. The Agenda was unanimously approved as amended.

PUBLIC COMMENT

No members of the public wished to comment at this time.

The Chairman noted that a letter had been received from Bob Brain's widow expressing appreciation for the Plaque that the Board of Directors had given to her husband.

SEATING DIRECTOR OF DIVISION ONE

Director Barkhurst introduced Gerrie Kilburn as the newly appointed Director for Division One noting that she had completed the Oath of Office and her Board Orientation with Mr. Kruse, Legal Counsel for the District.

REVIEW WEST TANK REFURBISHMENT PROJECT

The following discussion was held regarding the project.

General Manager --

"I have provided you with a memo that gives a summary and attached to that is the inspection report from the Utility Services Company of what they found and I wanted to explain in the memo that even though there is a cost indicated that that is not a cost to the KID. However in all fairness to them, since there was faulty workmanship involved, if we are successful in recovering money from the bonding company I would certainly like to see that Utility Services gets the net amount out of that because they will have to do more work than they anticipated in the future which will probably happen in November as that is the best time to take that tank out of service again. So we don't know if we will be successful but we wanted a report that indicated the cost to actually do what is recommended here. As I explained last month touch up work was done to hopefully hold our ground but we don't know whether there will be additional locations where the coating will separate.

Director Barkhurst --

"But are you comfortable at this point that we can wait until November?"

General Manager --

"Yes, we really have to operationally and Utility Services Company is fine with that. They feel that the work that was done will at least stop the clock a bit as far as any serious deterioration.

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Director Krieger --

“When it comes to dealing with the bond company are we obligated to Utility Services to go after the bonding company to a certain level of expense?”

General Manager --

“Absolutely not. I made that very clear to them and again I have done this just as a courtesy to them and they have a full realization that there is no expectation on their part or obligation on our part to go after the bonding company. At this point it has been very hard to really know where we are at because they have been so non-responsive. But now we have this report and pictures and one more piece of paper. Originally all we were asking was \$5600. plus attorney’s fees because that was all that was expected as far as work, so the fact that more work is done now, suddenly the ante is raised a bit and may get their attention. Again that is for our attorney to pursue and all I can do is try to keep them on it. We would like to keep on it so that at least we recover our out of pocket expense so we have some incentive to pursue it rather than just drop it. But on the other hand at some point in time the escalating of attorney’s fees may make it where we don’t want to pursue it anymore.”

Dr. Krieger --

“Well in that instance are we just going after the bonding company to collect the sums we have already spent in trying to get a response from the bonding company?”

General Manager --

“No also the original cost in taking care of the problem that was found early on. Through inspection of the tanks early on we knew that there was a problem and it turned out to be more extensive on West Tank than on Sage Tank.”

Director Krieger --

“Was this all prior to striking the deal with Utility Services?”

General Manager --

“Yes. Well before, although that was one of the reasons in pursuing a tank maintenance agreement in the future.”

Director Krieger --

How much is the sum in dollars?”

General Manager --

“\$39,000. That is shown at the bottom of page 2.”

Director Krieger --

“I am talking about the amount that Utility Services is not responsible for—is that \$39,000?”

General Manager --

“That is the amount that it would cost if we didn’t have a Tank Maintenance Agreement and hired them or another company to fix the tank.”

Director Sorell --

“Our out of pocket expenses are \$5600.”

Director Krieger –

“Another words we are paying an attorney to go after \$5600.”

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General Manager replied –

“No, now we are paying an attorney to go after more.”

Director Sorell --

“No, he is right because the additional money will not come to us unless we can recover the attorney fees, unless there is a foul up with the attorney’s fees.”

General Manager --

“You’re right. Quite frankly that is where there is a foul up. At one point in time there was an agreement to pay out of pocket costs but the attorney’s fees were so high over the extended period of time that I asked them to pursue recovery of attorney’s fees because there was a large out of pocket expense for us and the bonding company balked at that. However they never did actually say –okay we will pay \$5600. but we won’t pay attorney’s fees. So it never got to the point of them saying what they would do, it was just communication back and forth as to what the issues were. But in reality all that we can recover is the out of pocket expense.”

Director Krieger --

“What did the attorney say just with respect to collecting this minor amount. What is he advising?”

General Manager --

“He is in full agreement that we are due the money but they are non responsive and our only alternative is to sue the bonding company and go to court and may or may not be successful. But that is a long drawn out process.”

Director Sorell --

“But we could sue them in small claims court.”

Director Krieger --

“They are a bonding company. This is pretty offensive. This is their business. This is exactly what they were paid to cover.”

General Manager --

“Right. That is exactly why we required a bond and we are pursuing it. But just for your knowledge at this point what we are out for the two tanks is \$5600.”

Director Krieger --

“What is the name of the bonding company, just so we know and can spread the bad word?”

General Manager --

“Somewhere I have that information and I will get it for you.”

Director Kilburn --

“Somewhere I read that it was Goggins. And I am appalled.”

Director Sorell --

“I wonder if I can help out.”

General Manager--

“Director Sorell what I would like to ask, as a staff person, is that you talk with Andy Turner at Bill Kruse’s office as a Board member to Attorney and try to find out where we are at, what we need to do and maybe you could offer some suggestions. Obviously this matter might not be the highest priority at the law firm. Because of the amounts involved we are trying to do this at very

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low cost and that is why Andy Turner is handling the matter and not Bill Kruse who is one of the senior partners. But there is a lot more involved now than just our out of pocket costs.”

Director Krieger --

“So we never represented to Utility Services that these tanks were bonded?

General Manager –

“No they are in full knowledge of the process of who built them and what happened to them?

Director Krieger --

“But our deal is not contingent upon that information and they took that liability.”

Director Sorell --

“But we could assign our rights to them”

Director Krieger --

“That makes the most sense because then they will be making more money on our account which is good.”

General Manager --

“In fact that might be a good solution. That way we are out of the picture.”

Director Krieger --

“That way somebody gets to do the right thing.”

Director Sorell --

“I will talk to Andy about that.”

HOLLY TANK PIPELINE MUDSLIDE PROJECT

The **General Manager** stated that no billing has been submitted for the District's share for the damage caused by the mudslide.

SPECIAL DISTRICT MEMBERSHIP

The **General Manager** explained that he thought this was an organization that could bring benefits to the District at some time in the future, particularly in securing financial help. He stated that he is bringing the matter to the Board's attention as an information item and would like to submit the application unless anyone on the Board has some objections.

There was general consensus that the General Manager should submit the application.

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GENERAL MANAGER'S REPORT

The **General Manager** stated that he would take any questions regarding his report.

Director Krieger asked whether, if the line of credit with Wells Fargo did not work out, would the District then pursue the matter with other banks that are used to making these loans.

The **General Manager** stated that if this line of credit would not work out then he would pursue the matter with the California Special District's Association as he had found that no other banks were interested in providing a line of credit to the District.

Director Barkhurst explained that what Wells Fargo did not know until very late in the process is that there is a statutory provision that very restrictively defines what kind of lending relationship there must be between a commercial bank and a public agency and basically what they offered us is well in excess of what the law provides them to do and there is some question as to whether they can even legally offer us what they offered to us.

Director Krieger questioned whether this provision in the law was available somewhere.

The **General Manager** replied that he had not explored it but that it had been discussed with Wells Fargo because he was aware of some of these restrictions as was the Bank and there are some issues here that had nothing to do with Bank Policy.

Director Krieger stated that he understood but that if the alternative is Muni Bonds or some sort of Bonds that okay.

The **General Manager** replied that he was not talking just about Muni Bonds but was talking about financing through this organization. He explained that Bonds are a whole different thing and that financing can be obtained for projects or equipment..

Director Barkhurst further explained that CS Finance Corporation provides a variety of lending programs to public agencies which includes tax exempt bond financing but they also do a lot of other things.

Director Sorell questioned whether the Chlorine Analyzers were going to be hooked up into the SCADA System.

The **General Manager** replied that the Analyzers were going to be connected to the SCADA System and that the first one, the K-3 analyzer, is currently hooked into the system and that the plan is to bring another site on the system every one to two months.

Director Sorell questioned whether the FLOLOC Valve would be able to be remotely controlled and the **General Manager** replied in the affirmative.

Director Sorell questioned the status of the meter reading system and the **General Manager** replied that the new unit is being delivered around July 10 and employees will receive training following that.

Director Krieger questioned whether the chlorine analyzer would result in a more even quantity of chlorine being injected into the system or whether it will just be used to provide remote knowledge.

The **General Manager** explained that the current system is set up with alarms that lets the personnel know when the level is too high or too low but that further experimentation with the system will be needed to determine about automatic adjustment and that not all of the chlorine

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injectors in our system are the same so that automatic adjustment will not be possible at all sites. He further noted that the DOHS had been recommending continuous monitoring for several years during their inspection visits and that the new monitoring system will make them happy. It was further explained that this will save field personnel time as currently the monitoring is done manually once a day at every site.

REVIEW OF THE MINUTES

The minutes of May 16, 2006 were unanimously approved as presented after a typo correction. **Director Sorell** questioned whether the worksheet regarding the insurance had been obtained from the Auditors, Egan & Egan, and he was reminded that he had volunteered to do that.

REVIEW OF FINANCIAL REPORT

The **Treasurer** reviewed the Financial Report May 31, 2006 and it was approved for filing as presented.

Director Sorell noted that water had been sold to the City of Pasadena and the **General Manager** explained that it is a balancing act between putting water into our long term storage account, selling water to Pasadena, and meeting the needs of our customers. He also noted that the City of Pasadena had leased long term storage space from the District.

ITEMS FOR THE NEXT MEETING

Mud Slide – Holly Tank Line
Insurance Worksheet from Egan & Egan
Appointment of Budget Committee

ADJOURNMENT

The meeting was adjourned at 2025 hours and the next meeting will be on July 18, 2006.

Respectfully submitted,

Shirley Burt
Secretary to the Board