

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS OF THE
KINNELOA IRRIGATION DISTRICT
October 17, 2006**

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

STAFF PRESENT: Melvin Matthews, Chris Burt and Shirley Burt

CALL TO ORDER: The meeting was called to order at 1945 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

Mrs. Williams stated that at the last meeting she had commented regarding the disposition of the remaining Improvement District No. One funds and had indicated approval of the Boards prior decision regarding the use of these funds for a project within that area. However she stated that after hearing Director Sorell's discussion regarding the legal separation of the two entities, the KID and ID #1, she doesn't think there is any other option then to return those funds to the current land owners.

INTERVIEW OF CANDIDATE FOR DIRECTOR OF DIVISION II

Director Barkhurst introduced Frank Griffith who was the only Candidate that had applied for the position of Director for Division II. Mr. Griffith was then interviewed by members of the Board and questioned as to the reason he had applied for the position. Mr. Griffith replied that he had been interested in the District for a long time and

- 1) Had attended many KID Board Meetings over the last twenty some years
- 2) Had been involved during the fire recovery period in working with the county regarding fire hydrants in the District
- 3) Had worked with the District in the development of the General Plan
- 4) Had his degree in civil engineering and had worked for the Metropolitan Water District
- 5) Had been in the graphics and printing business, owning his own business for a number of years which involved the development of budgets, being responsible for employees and knowing what it takes to run a company.
- 6) Had sold his business a year ago and now just manages his real estate.

Director Sorell question whether he had the time to spend since he was on a number of Boards and Mr. Griffith replied that he has been leaving some of those Boards over the past year and that he does have a major commitment with Rotary as he is President until July 1, 2007.

Director Sorell then asked Mr. Griffith if he had severed all relationships with Denram and Mr. Griffith replied that he had and that he had sold off the business last September.

Director Barkhurst reminded Mr.Griffith about AB1234 which is code of ethics that all officials must adhere to and that he would have to attend one of the ethics classes within the next few months.

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Director Barkhurst stated the record should probably reflect that the reason there is not a more in depth interview is because the candidate is so well known to the KID and its Board Members.

It was M/S/C-(Sorell/Pickard-4/0)-**“That Frank Griffith be appointed as Director of Division II for the remainder of the term.”**

Director Barkhurst then requested Mr.Griffith to make an appointment with Mr. Kruse for his Board Orientation and taking the OATH OF OFFICE.

DISCUSSION OF WELLS FARGO BANK PROPOSAL FOR BANKING SERVICES

Prior to the opening of the discussion Director Barkhurst made the following statement that he wished to have included in the minutes.

“While I do not have a direct investment with Wells Fargo Corporation, I do have a substantial relationship with Wells Fargo Bank. I have my primary checking account with the Bank, as well as two IRA’S and a brokerage account. Additionally, I receive a check each month from Wells Fargo trust operations in Minneapolis, who is the successor Trustee to the First Interstate Bank defined benefit pension program. Accordingly, to avoid even the appearance of a conflict of interest, I am recusing myself from the discussion of and possible vote regarding the Wells Fargo Bank Proposal for Banking Services.”

The General Manager explained that he had solicited a proposal from Wells Fargo in an attempt to reduce banking costs and also, in establishing the line of credit with Wells Fargo, there was some expectations, if not an outright demand, that some type of banking relationship be established with them because obviously there were no continuing fees over simply having a credit line which hopefully will never be used. He stated that what he is proposing is to open an account with Wells Fargo but not sever the relationship with Bank of the West, and see if there are any cost savings to be realized.

Director Pickard questioned whether, if some savings are realized, the relationship with Bank of the West will be severed or the two accounts be maintained.

The **General Manager** replied that there may be no reason to keep two accounts because part of the overall charges are based on the average daily balance and the monies should not be spread too thinly. He stated however that the proposal is one thing and seeing the actual savings is another matter.

Director Pickard questioned how savings could be realized if two accounts were maintained and the General Manager replied that the most of the activity would be in the Wells Fargo account.

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Director Sorell stated that it was very difficult to compare the cost of the operations of the two banks and that the \$20.00 difference in cost was not worth spending Board time, but that the question is whether the service level is at least as good. He further stated that he did not

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understand the statement in the General Manager's proposal that "The Wells Fargo proposal is based on 100% desk top deposits, so we don't need to make trips to the bank, hold payments until we had a reasonable deposit size to make that trip or use a third party check scanning service that would add additional fees."

The **General Manager** replied that the whole check handling business is changing and that the option is to scan the checks on site and the whole process could be handled through Wells Fargo.

Director Kilburn questioned as to what percentage of the account would be moved to Wells Fargo and the **General Manager** replied that initially enough funds would be kept in the Bank of the West to handle payroll and the normal routine check writing would be done in the Wells Fargo Account.

Director Sorell questioned whether there are other questions or elements that should be asked before making the decision.

Director Barkhurst replied that Wells Fargo is a big bank and that Bank of the West is a big bank owned by a much bigger bank and that they are both sophisticated. He further stated that the same problems are going to exist at both banks, namely high teller turnover, high manager turnover, and not a lot of interest shown because the account is so small. Right now one of the banks has an advantage in that it has Electronic depositing.

Director Sorell stated that this issue is tied to the line of Credit and since there are no known drawbacks and possibly some advantages he suggested that no further discussion is needed.

It was M/S/C – (Sorell/Kilburn-4/0) – **“That staff be directed to open a checking account at Wells Fargo Bank.”**

Director Kilburn questioned as to how long the trial period would be and the **General Manager** stated at least a minimum of six months and that he would not want to eliminate the other account prematurely.

DISCUSSION OF DISPOSITION OF IMPROVEMENT DISTRICT NO ONE FUNDS

The **General Manager** explained that there was a small balance left in the Improvent District No. One account after all of the obligations had been met and that legal counsel had provided a opinion that outlined three options as to the dispostion of the remaining funds. He further noted that the Board had decided at their meeting in December of 2005 to keep those funds separated on the books and took no action other then acknowledging that one of the options was to use those funds for projects for the benefit of the area within Improvement District No. One. He explained that at that time it was thought that refunding the monies would be an accounting

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nightmare and that it would involve a great deal of time, energy and money and that no one wanted to use those funds in that manner. However, since then, a method of refunding the moneys that isn't quite the nightmare that it was first thought has been developed, and two

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options are now under consideration -- spend the money for a project within Improvement District No. One or refund the money.

Director Barkhurst stated that at the last meeting he had been of the opinion that, since cash flow was in such a tight position, anytime there was an opportunity to save \$19,000 by using it for project related expense as opposed to refunding it to the rate payers, that was what should be done. However, after reading Mr. Kruse's letter again, he stated that his concern now is if anything less than 100% of the money is used for other than 100% within the Assessment District, there would be a violation of the spirit if not the law as to the way that these funds can be used. In addition he explained that, taking into consideration what Mrs. Williams said regarding the opinion of her Homeowners Association Board of Directors, he has changed his opinion.

Mr. Griffith questioned how many fire hydrants could be upgraded within Improvement District No. One with these moneys which would provide greater protection for the homes in that area.

Director Sorell stated that was a good point but that the greater issue is that those funds were originally raised for discreet projects that were related to the merger, and even though a project was found that benefited only the residents of Improvement District No. One, those residents would be entitled to ask why should it be paid for with those funds when if the projects were done elsewhere in the District the monies would come from the General Fund of the KID.

Director Barkhurst stated one of the things that was agreed upon at the last meeting was that when the capital projects are prioritized none of those projects were going to fall off the list because the \$18,000 was not available.

Mr. Griffith then questioned as to whom the money should be refunded and the **General Manager** replied that legal counsel had advised that it was right and proper to return the funds to the current owner of the land.

Director Kilburn questioned whether the property owners needed to be given the option of whether they wished to have the funds credited to their water billing and **Director Sorell** stated that what he was recommending was that the owners be told that it would be credited to their water billing account unless they notify the office otherwise.

It was M/S/C –(Sorell/Kilburn-4/0) **“That Resolution 2006-10-17, as prepared by counsel, be adopted which in substance will return the excess funds remaining in the Kinneloa Irrigation District Improvement District No. One Account to the residents of that area.”**

REPORT FROM THE AD HOC BUDGET COMMITTEE

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The Board reviewed the rate breakdown report as prepared by the General Manager which compared the income to be derived from various rate schedules.

Director Barkhurst questioned as to what the expected water sales to Pasadena next year would be in comparison to the sales that had been made this year and the **General Manager** replied that more water was going to be sold to Pasadena in November and December of this year and that those sales are reflected in the year end forecast for 2006.

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Director Barkhurst then questioned whether the projected income included any funds from FEMA and the General Manager stated that it included \$50,000 which is included in the year end forecast.

Director Barkhurst then noted that the 2006 year end forecast shows a negative cash flow of \$77,000. and therefore the year ends with a net decrease in cash of \$77,000.

Director Pickard questioned whether there would be any FEMA projects for next year and the **General Manager** replied that all projects are expected to be completed this year, but that some of the reimbursement funds might not be received until in 2007.

Director Pickard questioned whether that was more than the \$50,000 that had been mentioned before and the General Manager stated that currently if no additional funds are forthcoming it is \$74, 500 that has been committed to the projects.

Director Barkhurst noted that the five year projected sources of income chart showed a level of capital projects each year that permits the KID to use funds in excess of the \$250,000 that is being held in reserve.

Director Sorell stated that he had asked the General Manager to prepare this chart because his thinking had been, if the year is started with a quarter of a million dollars in the operating budget, that the rate that is selected should

- 1) provide for funding of the capital projects as outlined in the Master Plan, which is about \$250,000 a year
- 2) not increase the reserve unnecessarily or cause a draw down on the reserve.

He further explained that

- 1) if there is no rate increase, based on the current forecast, the total amount of funds available would be spent in 2007 and that is not what the Board wants to do.
- 2) if the rate selected is between 4 and 5 percent, all the funds taken in will be spent on the projects without substantially increasing or decreasing the reserve fund.

Director Sorell emphasized that in looking at the 5% rate increase chart, the average monthly increase for a medium use customer is only \$5.00 and for the small use customer it is only \$3.00 per month. He also noted that, because the value of the dollar will be effected by inflation, the rate structure will need to be evaluated in two to three years to see that the balance is maintained. The **General Manager** noted that the proposed rate increase also shows a modest increase for the fixed monthly charge as there are certain expenses that are not tied to the quantity of water delivered.

Director Barkhurst stated that good financial management dictates that, as the fiduciary for the District, the Board has the obligation to see that certain capital projects must be done each year to

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maintain the quality of the water served to the customers and that the KID should maintain a baseline of reserves, which is currently \$250,000.

Director Sorell stated that he is recommending a 5% rate increase as shown in Column B of the rate schedule chart.

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It was M/S/C –(Sorell/Kilburn-4/0) **“That the appropriate steps be taken to give notice to the customers that the Board is suggesting a rate of \$36.00 per month for the daily service charge and \$2.42 per unit for the commodity charge and that the final decision will be made at the December Board Meeting.”**

Director Barkhurst then directed management to prepare a notice to be sent to the rate payers advising them of the rate increase and to have the notice reviewed by counsel.

GENERAL MANAGER’S REPORT

The General Manager reviewed his report as presented which included a detailed review of the current Hi/Lo and House Tunnel projects and the water production report for the 05/06 year.

REVIEW OF THE MINUTES

The minutes of the regular meeting of September 19, 2006 were approved as presented with the correction of several punctuation errors.

REVIEW OF FINANCIAL REPORTS

The Financial Reports of September 30, 2006 were reviewed by Director Sorell and unanimously approved for filing as presented.

ITEMS FOR NEXT AGENDA

Seating of Mr. Griffith as Director of Division II

ADJOURNMENT

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The meeting was adjourned at 2110 hours. The next meeting will be held on November 21, 2006.

Respectfully submitted,

Shirley L. Burt
Secretary to the Board