The Regular Meeting of the Board of Directors was called to order at 6:30 p.m. by President Dion and roll was called. Present were:

   Joseph M. Dion, President
   Allen B. Dains, Vice President
   Charles T. Rose, Director
   Robert A. Churchill, General Manager
   David B. Kane, Assistant General Manager
   John J. Townsel, Operations Manager
   Paul A. Dietrich, Senior Engineering Technician

VISITORS

None

Director Dion led the Pledge of Allegiance.

PUBLIC COMMENT

None

CONSENT CALENDAR

President Dion asked for the Consent Calendar. It was moved by Director Dains, seconded by Director Rose and carried 3-0 to accept the Consent Calendar consisting of:

1. Minutes of the Regular Meeting of July 12, 2011 as amended.
5. Bills to be Paid for July 2011.
7. Summary of 2011 Directors, Officers and Employees Training, Seminars and Conference Expenses.
8. Approve Check No. 52081 in the amount of $78,849.00 payable to Mainlining Service, Inc., for services performed on the Mariposa Avenue 16-Inch Water Main Rehabilitation Project No. 2011-16.

OLD BUSINESS

Bonita Way Storage Building Construction

OM Townsel presented a final status report on the construction phase of the Bonita Way Storage Building. He stated that the final inspection has been satisfactorily completed and
that the project is complete as of July 27, 2011, one year after construction commenced. The total cost for construction of the project, performed by Owens Construction, was $229,632.75. The total cost for design and inspection services performed by Blackbird and Associates was $84,025.90.

2011 Auburn Boulevard 12-Inch Water Main Replacement Project – Award of Bid

SET Dietrich presented a report on bids received to replace an existing steel water main, water services and fire hydrants on Auburn Boulevard. Plans and specifications were prepared and distributed to 14 contractors, three material suppliers and one contractor builder exchange service for the 2011 Auburn Boulevard 12-Inch Water Main Replacement Project. The project involves the installation of about ¾ of a mile of water main and other related work including main valves, fire hydrants and water services along Auburn Boulevard and interconnecting streets between Cedar Drive and Linden Avenue in Citrus Heights. Directors were provided with a map showing the location of the work.

The District received ten sealed proposals on July 28, 2011, at which time proposals were opened and read publicly. The apparent low bidder is Mountain Cascade Inc. of Livermore, California. Bids received are as follows:

<table>
<thead>
<tr>
<th>Bidder</th>
<th>Bid Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mountain Cascade, Inc</td>
<td>$1,033,333.00</td>
</tr>
<tr>
<td>Teichert Construction</td>
<td>$1,053,045.00</td>
</tr>
<tr>
<td>Preston Pipelines</td>
<td>$1,118,690.00</td>
</tr>
<tr>
<td>McGuire &amp; Hester</td>
<td>$1,269,470.00</td>
</tr>
<tr>
<td>Sierra National</td>
<td>$1,282,660.00</td>
</tr>
<tr>
<td>Marques Pipeline</td>
<td>$1,296,450.00</td>
</tr>
<tr>
<td>Lund Construction</td>
<td>$1,399,875.00</td>
</tr>
<tr>
<td>Vulcan Construction</td>
<td>$1,510,135.00</td>
</tr>
<tr>
<td>Cox &amp; Cox Construction</td>
<td>$1,572,775.00</td>
</tr>
<tr>
<td>Lorang Brothers</td>
<td>$1,573,402.00</td>
</tr>
</tbody>
</table>

The District’s pre-bid estimate for the work was $1,291,750. The budget for the project as approved in the 2011 Capital Improvement Budget is $937,204. Directors and staff discussed the project.

It was moved by Director Rose, seconded by Director Dains and carried 3-0 to accept the bid of Mountain Cascade Inc. in the amount of $1,033,333.00 and establish a change order contingency fund in the amount of $105,400.00; and authorize the General Manager to execute an agreement for the work.

2011 Auburn Boulevard 12-Inch Water Main Replacement Project – Inspection Services

GM Churchill presented a report on using contract inspection services for the Auburn Boulevard Water Main Replacement Project.

The scope and magnitude of the Auburn Boulevard project will require a full-time
The District has received two proposals to provide inspection service; one from the Sharp Inspection Group and one from ICM Group, Inc. The Sharp Inspection Group provided contract inspection services during the District’s meter retrofit projects. The ICM Group recently completed construction management work for San Juan Water District’s Wholesale Meter Retrofit Project.

Proposed hourly rates are:

- ICM Group, Inc. $73.00 per hour
- Sharp Inspection Group $85.00 per hour

The project is estimated to take no more than 275 days equating to 2,200 hours and an expense of an estimated $160,600. Directors and staff discussed the contract inspection services and the qualifications of the ICM Group inspector that is proposed to be assigned to the project. Directors and staff discussed the inspection services for the project. It was discussed that the project schedule will extend through the 2011 holiday moratorium period, with no construction work occurring on Auburn Boulevard from Thanksgiving week until after the New Year holiday.

It was moved by Director Dains, seconded by Director Rose and carried 3-0 to approve entering into a Professional Service Agreement for Inspection Services with the ICM Group, Inc. at an amount not to exceed $165,000.00; and authorize the General Manager to execute the Agreement.

**NEW BUSINESS**

**Training/Continued Education/Meetings**

The Board was informed of various upcoming training, continued education opportunities and meetings.

**General Manager Job Description**

GM Churchill presented a report on proposed amendments to the job description for the District’s General Manager. The General Manager has authority for developing and approving all job descriptions for District positions that report to him while the Board of Directors is the approving authority for the job description of the General Manager position. Directors were provided with a copy of CHWD Human Resources Policy No. 4090, Job Descriptions, that sets forth the approval authority for job descriptions.

The General Manager, with the assistance and input from staff, has completed revisions to all the job descriptions for all other staff members. In so doing, the job description for the General Manager was reviewed. Revisions have been recommended to provide consistency with other job descriptions.

The General Manager job description was most recently approved by the Board of
Directors along with GM Churchill’s employment contract in May 2009. Directors were provided with a copy of Human Resources Policy No. 4090.20.01, Job Description for General Manager, with recommended revisions. It was noted that the revisions were mostly non-substantive in nature. Directors and staff discussed the General Manager’s job description and proposed amendments to it.

It was moved by Director Rose, seconded by Director Dains and carried 3-0 to approve Human Resources Policy No. 4090.20.01, Job Description for General Manager, with amendments as presented.

2012 Budgets and Water Rates

AGM Kane presented a report on major issues related to the draft Operating and Capital Improvement Budgets for 2012, and draft water rates for 2012. He noted that the purpose of discussion at this Board of Directors meeting is to provide direction to staff on budget parameters and the possible range of water rate adjustments for 2012.

Staff has identified what it believes to be some of the key issues for 2012 and has developed preliminary budget and rate estimates as a starting point for discussion of the 2012 budgets and water rates. Directors were advised that the estimates presented in this report should be viewed as planning-level estimates only, and may be subject to considerable refinement as the budget and rate development process for 2012 moves forward.

As the District looks ahead to the 2012 fiscal year, there are both encouraging trends and continued challenges on the horizon. Some financial issues for Citrus Heights Water District in the year ahead are:

- **Funds and reserves rebuilding.** District fund and reserve balances, as a whole, are at their highest level since 2001. Total funds and reserves are expected to stand at about $7.5 million by the end of 2011.

- **Economic conditions and rising operating costs.** Similar to the past three fiscal years, the economic health of the region is struggling with high unemployment, mortgage foreclosures and business closures. There will be no increase in the cost of treated water from San Juan Water District for 2012. However, many other District costs have risen and are expected to rise further in 2012, including labor and materials, fuel costs, power for pumping groundwater and costs related to customer service such as bill mailing and processing.

- **Current water rates will not support future needs.** CHWD made significant budget reductions in 2009 and 2010, including deferring major capital expenditures. Overall spending increased slightly for 2011, but the District continues to be very lean in both its operations and its capital reinvestment. At a minimum, a modest increase in rates is needed to continue to maintain services at their current level and to build reserves to provide for planned capital spending of...
$5.68 million in 2013.

- **Holding the line on service charges.** The District has not changed the service charge component of its rates since 2009 while increasing the commodity cost, the cost of water used by customers. Continuing to increase only the commodity cost of the water may serve to limit or decrease customer demand in support of the State-mandated 20% by 2020 reduction requirement.

- **Decreases in water sales.** Revenues from water sales in 2010 were more than $330,000 below projections due to decreased demand. Although the cost per unit of water was increased by 6 percent for 2011, total revenues for water sales in 2011 will likely be about the same as 2010 due to decreased water consumption.

- **One-time revenues from SJWD.** CHWD could see one-time revenues of about $1.5 million from San Juan Water District from the reallocation of costs for the installation of wholesale water meters that took place several years ago. The actual amount and timing of this revenue is still under discussion by the SJWD Board of Directors, but it is believed likely that that a reallocation in this order of magnitude will be approved. Some of this money could possibly be received before the end of 2011. This revenue is not now included in any CHWD financial projections.

For discussion purposes, staff has assumed a rate increase for 2012 in the same range as the 2011 increase: a 6 percent increase to the commodity rate and no adjustment to service charges. The overall effect of this assumed increase would be about a 2.1 percent increase for the typical residential customer, about 81 cents per month. Directors were presented with some very preliminary budget and rate projections to provide a framework for initial discussion and guidance for preparation of budget and rate projections to be presented at the Board’s annual Budget and Water Rate Workshop on September 13, 2011.

A Preliminary 2012 Operating Budget of $9.22 million was proposed, representing an increase of $277,000 from the 2011 budget. Major issues that will affect budgets and spending for 2012 include:

- District operations and staffing extremely lean – nowhere to cut without impacting services
- Salary cost-of-living adjustments/merit increases of 3.1 percent (estimated based on June 2011 Consumer Price Index)
- Health insurance benefit cost increases are big unknown
- Increased regulatory compliance costs such as permitting, NPDES, air quality, water conservation
- Field operations costs (materials, tools, fuel) expected to exceed 2011 budgeted amounts

A Preliminary 2012 Capital Improvement Budget $2.68 million was presented. It was
noted that there will be an estimated carryover of $750,000 from uncompleted 2011 project. Major capital improvement spending for 2012 includes:

- Completion of Auburn Boulevard 12-Inch Transmission Main ($400,000)
- Meter and fire hydrant replacements ($124,000)
- Pratt/Mariposa Avenue transmission mains ($459,000)
- New groundwater well design ($200,000)
- Administration Building improvements ($324,000)
- Information system component replacements ($65,000)
- Transmission/distribution main replacement/rehabilitation ($757,000)

As a starting point for discussion of water rates and charges for 2012, staff has assumed an increase in the commodity rate with no increase in the service charge. Major issues that may affect water rate adjustments for 2012 include:

- No increase in SJWD treated water rate could call into question need to increase rate to CHWD customers
- District financial reserves strongest since 2001, overall rate increase of 2.1 percent increases total revenues by an estimated $185,000
- Continues progress toward BMP water rate compliance and encouraging conservation to meet 20% x 2020 goal
- Possible one-time revenue of $1.5 million from SJWD – use to restore Capital Improvement Reserve balance?
- Need to reinstitute annual contributions to Depreciation Reserve that have been deferred for past two years
- Capacity fee income has dropped off due to economic conditions

A 6 percent increase in the per-unit water charges would result in the following increases (Tiers shown are for 1-inch metered service, 1 unit = 100 cubic feet = ±748 gallons):

<table>
<thead>
<tr>
<th>Tier</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 (1 to 52 units)</td>
<td>$0.6751</td>
<td>$0.7156</td>
</tr>
<tr>
<td>Tier 2 (53 to 104 units)</td>
<td>$0.7944</td>
<td>$0.8421</td>
</tr>
<tr>
<td>Tier 3 (105+ units)</td>
<td>$0.8700</td>
<td>$0.9222</td>
</tr>
</tbody>
</table>

Directors and staff discussed budget and rates for 2012, including the major financial and policy issues for the year ahead. Directors discussed that it could be difficult to justify an increase in the commodity rate in a year when the District’s cost for purchasing treated water will not increase. Directors also acknowledged that other costs of operations would be increasing, as well as the cost of capital projects that have been deferred in earlier years in an effort to reduce the effect on water rates, and that to do no rate increase for 2012 may mean larger rate increases required in future years.

Directors discussed various water rate alternatives for 2012, including the “no increase” alternative, a 3 percent increase in the commodity rate and a 6 percent increase in the commodity rate. Directors requested that staff present information on these three alternatives at the Public Workshop at the September 13, 2011 Board meeting. Directors
also requested that information be presented on the future effect of 2012 rate decisions on District revenues and financial reserves, and that projected future water rate increases from SJWD be considered as well if such information is available.

Directors and staff discussed the Proposition 218 notification requirement if the Board is proposing a rate adjustment for 2012. The District would save the cost of the notification mailing, about $9,000, if no increase is proposed. If an increase is being considered, the District must prepare and mail a Proposition 218 notification not later than September 21, 2011 in order to meet the 45-day notification requirement for a public hearing at the Board’s November 9, 2011 meeting.

Direction and input from Directors at this meeting will be used to refine the preliminary budget and rate proposals for the September 13, 2011 Board workshop.

San Juan Water District Bay Delta Policy Guidelines

GM Churchill presented a report on draft Policy Guidelines being considered by the San Juan Water District Board of Directors. The Policy Guidelines present principles with respect to solutions for Bay Delta problems. At the San Juan Water District Executive Committee meeting of July 26, 2011, SJWD staff advised that draft Policy Guidelines regarding Bay Delta issues had been drafted for discussion by the SJWD Board of Directors. SJWD Family members were invited to review and comment upon the draft Policy Guidelines. Directors were provided with a copy of the draft Guidelines.

The draft Policy Guidelines are presented for review and discussion by CHWD Directors. Comments or suggestions on the Policy Guidelines by the CHWD Board at this meeting will be forwarded to SJWD for consideration. Directors and staff discussed the draft Policy Guidelines. Directors expressed that the Policy Guidelines appeared satisfactory in their current form, and had no comments or suggestions for changes.

The fifth draft of the Delta Plan was released by the Delta Stewardship Council on August 2, 2011. SJWD staff is monitoring the Delta Plan along with SJWD legal counsel. They have expressed the opinion that there are still serious issues with the Plan in this fifth draft from the perspective of the SJWD Family. SJWD GM Shauna Lorance has suggested that representatives from SJWD Family agencies attend the next Delta Stewardship public meeting and be prepared to comment on the Plan at that meeting. The public meeting is scheduled for August 25-26, 2011. Directors and staff discussed attendance at the upcoming Delta Stewardship public meeting. Directors Dion and Rose stated that they may be able to attend and comment on the Plan. They asked that staff keep them apprised of the location of the meeting and the actual date that public comment is scheduled to be received.

PROJECT MANAGER’S REPORT

On behalf of PM Rossi, SET Dietrich reported on the following activities during the
month of July 2011 by the Project Management and Engineering Department: projects under construction or pending construction by private contractors and developers; project development/design underway by District staff including the Auburn Boulevard – Cedar Drive to Linden Avenue 12-Inch Ductile Iron Pipeline Replacement Project, and projects under construction or completed by contractors on the District’s behalf including the Mariposa Avenue – Greenback Lane to Limerick Way 16-Inch Steel Pipe Cement Mortar Lining Project. He reported on design coordination underway with the City of Citrus Heights on the City’s Auburn Boulevard Joint Trench Utility Undergrounding Project and the Sunrise Boulevard Complete Street Improvement Project.

OPERATIONS MANAGER’S REPORT

OM Townsel reported as follows:

1. A total of 142 work orders were performed during the past month by Field Operations crews, Administration Field crews and District contractors. The results of recent bacteriological testing, a total of 72 samples, have met all California Department of Public Health requirements.

2. District-wide water consumption for the calendar year 2011 through the end of July 2011 was 7,152.64 acre-feet, a decrease of 23.4 percent compared with the average annual water consumption during the previous five years, 2006-2010.

President Dion called a brief recess to the meeting at 7:47 p.m. OM Townsel and SET Dietrich left the meeting. The Board reconvened at 7:50 p.m.

DIRECTOR’S AND REPRESENTATIVES REPORTS:

Director Dion reported on a recent meeting of the Regional Water Authority (RWA) that he attended along with Director Rose, GM Churchill and AGM Kane.

GM Churchill reported on a meeting of the Regional Water Authority (RWA) Executive Committee that he attended recently.

Director Rose reported on an upcoming meeting of the Sacramento Groundwater Authority (SGA).

Director Dion reported on a meeting of the San Juan Water District Executive Committee that he attended recently along with Director Rose, GM Churchill and AGM Kane. He also reported on a meeting of the Association of California Water Agencies - Joint Powers Insurance Authority (ACWA-JPIA) that he attended recently, and other recent matters of interest regarding ACWA-JPIA.

Director Rose discussed a meeting of the Sacramento Local Agency Formation Commission (LAFCO) that he attended recently. He also reported on recent matters of interest regarding the City of Citrus Heights.
AGM Kane reported on a meeting of the Chamber of Commerce Government Issues Committee that he attended recently.

ASSISTANT GENERAL MANAGER’S REPORT

AGM Kane reported as follows:

1. The District received its periodic risk assessment from ACWA-JPIA in late May 2011. This assessment included a site visit from ACWA-JPIA Risk Management Consultant R. Scott Wood who met with CHWD staff to review and assess the District’s risk management programs. No items in need of correction were noted as a result of the assessment, which is a sign of the effectiveness of the District’s efforts in regard to safety, property protection, and risk transfer. Directors were provided with a copy of the follow-up letter received from Mr. Wood.

2. Directors were provided with a summary of Water Efficiency Program activities during the month of July 2011, including the number of ultra-low-flush toilet rebates and high-efficiency clothes washer rebates issued. One violation notice was issued to a customer on Sunrise Boulevard for over-watering and broken sprinkler heads. Work is underway on Best Management Practice compliance reporting with the California Urban Water Conservation Council.

3. AGM Kane attended a Water Forum Water Caucus meeting in July. The meeting’s focus was the distribution of the draft Water Supply Impact Data for the Lower American River Flow Management Standard (LAR FMS). Water agency staffs are still reviewing the data, and it will be further discussed at an upcoming Water Caucus meeting. Upon initial analysis, the impact on SJWD Family water supplies under the LAR FMS does not appear to be significant under most hydrologic conditions.

4. The District’s Final Municipal Service Review (MSR) and Sphere of Influence Update was considered by the Sacramento Local Agency Formation Commission (LAFCo) at their meeting on August 3, 2011. LAFCo adopted a resolution approving CHWD’s MSR and Sphere of Influence Update. According to the five-year update interval as specified under State law, the District’s next MSR will be due in 2015.

GENERAL MANAGER’S REPORT

GM Churchill reported as follows:

1. Twenty-four District employees received recognition for superior attendance, outstanding customer service and quality of work during the month of July 2011. Directors were provided with a list of the employees and items for which each received recognition.
2. SJWD staff continues to work on the cost allocations and reimbursement plan for the SJWD Wholesale Transmission Pipeline System Metering Improvements Project. The matter was scheduled to be discussed at the SJWD Finance Committee meeting on August 9, 2011, but was pulled from the agenda because additional work on the cost allocations is required before presenting a recommendation to the Finance Committee.

3. A list of the General Manager’s significant assignments and activities was provided.

CORRESPONDENCE

Correspondence was discussed and ordered filed as follows:


FUTURE MEETINGS

A list of upcoming Board meetings and other meetings related to the business of the District that may involve the participation of Directors or District staff was presented and reviewed.

ADJOURNMENT

There being no other business to come before the Board, the meeting was adjourned at 8:22 p.m.

APPROVED:

Original signed by: Robert A. Churchill
Original signed by: Joseph M. Dion
ROBERT A. CHURCHILL
JOSEPH M. DION, President
Secretary
Board of Directors
Citrus Heights Water District
Citrus Heights Water District