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  
David L. Goforth, Vice President  
Allen B. Dains, Director  
Robert A. Churchill, General Manager  
David B. Kane, Assistant General Manager  
John J. Townsel, Operations Manager  
Paul A. Dietrich, Project Manager  
Pamela L. Peters, Office Administrator  
Timothy R. Cutler, Water Distribution Supervisor  
Jason E. Tupper, Water Quality Technician

VISITORS

Melinda Tupper, wife of Jason Tupper

Director Dion led the Pledge of Allegiance.

PUBLIC COMMENT

None.

CONSENT CALENDAR

President Dion asked for the Consent Calendar. AGM Kane noted that the monthly financial reports that are typically included on the Consent Calendar could not be prepared in time to be included on this Board meeting agenda due to end of the prior month being only three calendar days before the meeting. The reports will be presented at the next regular Board meeting in October. It was moved by Director Dains, seconded by Director Goforth and carried 3-0 to accept the Consent Calendar consisting of:

3) Payables for August 2013.

OLD BUSINESS

2014 Budgets and Water Rates – Public Workshop

AGM Kane delivered a presentation on the draft Operating and Capital Improvement
Budgets for 2014 and water rates issues for 2014, including possible changes to the District’s water rate structure and possible water rate adjustments for 2014.

The presentation summarized key issues related to budgets and rates for 2014, and summarized the draft $9.81 million 2014 Operating Budget and draft 2014 Capital Improvement Budget of $8.82 million. The presentation also summarized two possible water rate options, one based on the current water rate structure and the other based on a cost-of-service water rate structure as recently developed in the District’s ongoing Financial Plan process. Both water rate options propose rate adjustments that will result in a 3 percent total revenue increase.

Key fiscal and economic issues being faced by the District include:

- Possible water rate restructuring as a result of the District’s long-range financial plan development that is now underway. Preliminary information from the financial planning process has identified a possible need to restructure fixed bi-monthly service charges to more closely match the cost of service to customers.

- Employee health insurance costs are a major component of the District’s salary and benefit costs. The federal Patient Protection and Affordable Care Act (PPACA) is changing the entire scope of health care insurance in ways that are still being determined. There is much uncertainty as to what this will do to health insurance costs or the ability of the District to continue to offer the insurance plans now made available to employees.

- The recent upswing in building and economic activity in the area has a spillover effect on workload in various areas of District operations, from increased need for inspection of construction projects to greater customer service activity related to buying and selling of property. With building activity on the rise, the District is beginning to see the effect in the form of higher bids for projects.

- The composition of the District’s very stable and experienced workforce is undergoing change as more long-time employees reach retirement age. The District has experienced more employee retirements in the past two years than it did during the previous ten years. The beneficial financial effect of hiring new employees at lower points in the salary ranges are offset in part by the loss of valuable institutional knowledge and experience.

- CHWD has seen an increasing trend of other governmental entities such as cities and counties aggressively shifting their costs of service to agencies such as CHWD. One example is the rising cost of encroachment permits and inspection costs for CHWD’s work in public right-of-ways.

As discussed at the recent Financial Plan workshops, a revenue adjustment of 3 percent is recommended for 2014 to provide the revenue needed to support District operations, planned capital improvements and to maintain financial reserves by the end of 2014 at target level of roughly $5.1 million excluding restricted debt reserves.
Preliminary 2014 spending proposed for operations and capital improvements were summarized as follows:

**Operating Budget:** $9.81 million, increase of 2.29% ($220k) from 2013 budget

- Includes $1.89 million in transfers to the Capital Improvement and Depreciation Reserves.
- A 3 percent increase in per-unit cost of treated water from San Juan Water District.
- Salary COLA increases of 2.0% estimated based on current Consumer Price Index and merit increases of up to 1.5% at the discretion of the General Manager. Some salary amounts will go down due to anticipated decreased salary amounts for new employees replacing long-term employees who were at higher points in their salary ranges.
- Employee benefit cost decrease of about $65k (-14.2%) below 2013 levels. A factor contributing to the decrease is new employees whose CalPERS contribution rates are lower.
- Higher pumping and well maintenance costs (+59k) due to increases in SMUD standby and peak demand rates and a planned increase in groundwater production for 2014.
- A $197k increase in the Customer Service and Administration budget, due to the inclusion of $250k in Professional Services for a document management project, the next phase of a District Technology Improvements Master Plan that began in 2002.

About $625k in salary and benefit costs are proposed to be allocated to the Capital Improvement Budget to account for time spent in the planning, design and construction of capital projects by District employees.

**Capital Improvement Budget:** $1.94 million new for 2014, plus estimated carryover of $6.88 million from prior-year projects

Total Capital Projects of $8.82 million for 2014

Project highlights include:

- Design and construction of Skycrest Well ($2.68 million in 2014). Design work is expected to commence in late 2013.
- Main replacements on Palm Avenue, Castle Street, Kilborn Drive, Ronnie Street, and Billie Street budgeted at $1.25 million. This project is currently in design.
- Completion of the Auburn Boulevard – Watson Way 8-Inch Distribution Main Replacement, already underway and to be completed in 2014 with a 2014 budget of $47k.
• Replacement of aging customer water services budgeted at $618k.

• Administration Building expansion and improvements, conceptual design work already in progress, completion in 2014 at $721k.

• Replacement, upgrades and new fire hydrants ($151k).

• Seven water main replacement or installation projects scheduled to start design in 2014 at a total design cost of $186k. Designs will be done in 2014 with construction on five of the projects targeted for 2015 at a total construction cost of $1.86 million.

• Operations equipment replacements and new equipment totaling $228k for 2014.

• Upgrades to the District’s Cityworks work order system, purchase of a new plotter/scanner for the Project Management Department and upgrades to meter reading telemetry at C-Bar-C, Santa Juanita and Filbert at a total cost of $100k for 2014.

Total Budgets for 2014: $11.75 million

Total Funding Requirements for 2014 Budgets: $16.74 million

(Total Budgets + prior year CIP carryover less Reserve Transfers)

($11.75 million + $6.88 million - $1.89 million = $16.74 million)

AGM Kane also presented information on possible rate adjustments for 2014. The Board of Directors is considering rate adjustments for 2014 to result in a 3 percent overall increase in revenues as recommended in the draft Financial Plan now under review. The recommended revenue increase will support operation of the District and continued reinvestment in the District’s infrastructure. Discussions by the Board at this point are focused not just on the percentage amount of the increase but upon the District’s customer rate structures themselves.

Information was presented on the ongoing Financial Plan process and the cost-of-service (COS) analysis performed as part of that process. The COS analysis is done to determine the appropriate level of bi-monthly service charges to be paid by different classifications of customers to match the cost of service to those customers. The COS analysis shows a reduction in the amount of revenue required from single-family residential customers, who represent a large majority of total District customers. Under the allocation of costs identified in the COS analysis, other domestic and commercial customers would bear a slightly larger amount of the revenue demand, while customers with irrigation meters – large apartment complexes, parks, schools, the cemetery – would bear a proportionately much larger share of the revenue demand. This is due mostly to an analysis of the level of demand placed on the District’s water system, and irrigation meters have a high peak demand factor that the District’s system must be designed and maintained to accommodate.

Information was also presented showing typical bi-monthly service charge changes under
A new rate structure for 2014 using cost-of-service-based charges and applying a proposed 3 percent revenue increase.

The Board of Directors has reviewed two possible rate scenarios for 2014. The first scenario was based on continuing the fixed service charge allocations that are now in place for all customer classes and applying a 3 percent increase. The second scenario used the cost-of-service-based rates. In both cases, a 3 percent increase to the commodity charge, the cost per unit of water consumed, was applied to the rates in each tier.

Directors also discussed the current three-tiered rate structure compared to a possible single-tier structure for water consumption charges for some or all classes of customers. They noted that the three-tiered rate structure is designed to provide an incentive for customers to use water efficiently, thereby avoiding the higher per-unit cost of water, particularly in Tier 3. The three-tiered rate structure also helps to satisfy water efficiency mandates from the U.S. Bureau of Reclamation who operates Folsom Reservoir, the source of most of the District’s water supply. However, it was also noted that it can be difficult for some customers to avoid ending up with consumption in Tier 3 even when using water efficiently. Analysis has shown this to be especially true for customers with irrigation meters.

A single-tier rate structure would help to eliminate inequities among customers who cannot avoid consumption in Tier 3, particularly in summer months when outdoor watering is at its peak. The single-tier rate structure would also eliminate any issues regarding the ability of the District to defend the cost basis of tiered rates. However, for those customers who are now able to limit most of their water consumption within Tier 1, having a single “blended” consumption rate will probably result in a higher cost of water for those customers. Directors discussed whether elimination of the three-tier structure would result in increased water consumption by customers. Staff acknowledged that it could be difficult to predict the effect on water consumption of taking away the three-tier rate structure.

It was discussed that the Board of Directors will continue to review rate structure options at their Special Board Meeting on September 30, 2013, at which time they are expected to provide direction to District staff on a final rate structure methodology to be used in determining proposed water rates for 2014.

AGM Kane outlined the Proposition 218 notification process that must be conducted by the District prior to considering adoption of a rate increase. The District must provide written notification of a proposed rate increase to all property owners within the District in accordance with the requirements of Proposition 218. A draft Proposition 218 notice, based upon the rate adjustments yet to be decided by the Board of Directors, will be prepared consistent with prior years’ notices if the Board chooses to consider a rate increase. The notice contains information about the increase, notifies property owners about the date and location of the public hearing where adoption of water rates will be considered, and provides instructions for submitting written protests regard the proposed increase.
The notification must be received a minimum of 45 days in advance of the public hearing. The District’s annual public hearing, originally scheduled for November 12, 2013, will be proposed to be rescheduled to the date of the Board’s December 10, 2013 Board meeting. This is because a final determination on rates for 2014 is not expected to be made until sometime after September 25, 2013, which is the date by which notices would need to be mailed in order to meet the 45-day requirement for a November 12 public hearing. The rate adjustment contained in the Proposition 218 notice essentially sets the “ceiling” for rate adjustments that can be considered by the Board at the public hearing.

Directors and staff discussed the proposed budgets and water rates. Input from Directors will be incorporated into a revised draft to be presented at a future Board meeting.

**Long-Range Financial Plan Update**

AGM Kane presented an update on the project to develop a long-range financial plan for the District. The Board conducted a second workshop on the long range financial plan on August 27, 2013. Directors received a presentation from NBS Project Manager Greg Clumpner on an overview of the financial plan rate study findings, a comparison of total revenue by customer class, a review of current fixed service charges versus proposed new service charges based on the financial plan analysis, and a comparison of typical customer bills under two possible water rate scenarios for 2014. Mr. Clumpner also discussed a recent California court decision involving water rates that emphasizes the need to have tiered commodity charges supported by actual costs.

Mr. Clumpner will be developing the possible rate scenarios for Directors’ review and consideration at the next workshop, with the goal of the Board considering a final decision on a water rate methodology for the District. Directors have scheduled the next Special Board of Directors Meeting for discussion and possible action on financial plan and water rate structure issues for September 30, 2013 at 9:00 a.m.

**Skycrest Well**

GM Churchill presented a report on the acquisition of the site for the Skycrest Well and the process to select a design engineer for the project. Recording of the Grant Deed from San Juan Unified School District (SJUSD) to Citrus Heights Water District (CHWD) for the Skycrest Well site is anticipated to take place within the next week. Placer Title Company has requested a Resolution from CHWD accepting the property from SJUSD. This Resolution will be recorded together with the Grant Deed. Directors were presented with a draft Resolution for consideration. Directors and staff discussed the property acquisition process and the proposed Resolution to accept the property from SJUSD.

The District issued a Request for Proposals (RFP) on July 30, 2013 to 16 firms to provide engineering services for the design, testing and construction management for the Skycrest Well Project. A mandatory pre-proposal conference was held August 8, 2013 with 14 firms attending. Six proposals were received on August 28, 2013 and they are being
reviewed by GM Churchill, OM Townsel and Water Quality Supervisor Hensley. It is anticipated that a recommendation will be presented to the Board of Directors for consideration of selection of a design engineer for the project at the October 8, 2013 Board of Directors Meeting. Directors and staff discussed the design engineer selection process.

It was moved by Director Dains, seconded by Director Goforth and carried 3-0 to adopt Resolution No. 12-2013 Accepting Real Property from San Juan Unified School District.

NEW BUSINESS

Training/Continued Education/Meetings

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

Extension of District Auditor Agreement

AGM Kane presented a report on the District’s option within its current Agreement for Financial Audit Services with Richardson & Company to extend the auditor’s engagement two more years. The financial accounting firm of Richardson & Company of Sacramento has been the District’s auditors for the Fiscal Years ending 2010, 2011 and 2012. Richardson & Company was selected as the District’s auditor in October 2010 as the result of a competitive Request for Proposals process involving nine financial accounting firms.

Directors were provided with a copy of the Agreement for Financial Audit Services with Richardson & Company. The Agreement is structured as an initial three-year engagement with the option of an additional two years at pricing set forth in the Agreement. Total fees under the agreement are set with an increase that amounts to $700 per year or about 3.5 percent each year over the five years of the Agreement, with a fee of $21,000 for the Fiscal Year 2013 audit and $21,700 for the Fiscal Year 2014 audit.

Directors concurred that Richardson & Company has performed their auditing services in a highly satisfactory and professional manner during the first three years of the engagement and noted that the knowledge that they have gained of the District will be a benefit during the final two years of the engagement. Directors were provided with a copy of District Policy 6010, Financial Audit, that strongly encourages limiting the engagement of an auditor to five years in order to maintain the highest level of objectivity and impartiality in its auditing services.

It was moved by Director Dains, seconded by Director Goforth and carried 3-0 to authorize extending the Agreement for Financial Audit Services with Richardson & Company to include Fiscal Years ending December 31, 2013 and 2014 per the Extension Option set forth in Section 7 of the Agreement.
PM Dietrich presented a report on bids received to replace water transmission mains below two creeks in Citrus Heights along Old Auburn Road between Bonita Way and Wickham Drive and along Mariposa Avenue between Chula Vista Drive and Heatherington Way. Project plans for Project No. 2012-24 were prepared by West Yost Associates Consulting Engineers and the District Engineering Department and distributed to ten contractors and two material suppliers for installing approximately 25 lineal feet (lf) of 30-inch bore casing, 510 lf of 18-inch water main, 25 lf of 24-inch bore casing, 240 lf of 12-inch water main, 58 lf of 8-inch water main, 4 main valves, 1 fire hydrant, 3 water services, and related appurtenances along Old Auburn Road and along Mariposa Avenue as noted above.

The Old Auburn Road 18-inch main’s leak history warrants its replacement. The Mariposa Avenue 12-inch main work interconnects two dead-ends of a previously abandoned water main.

The District received four sealed proposals on August 28, 2013, at which time proposals were opened and read publicly. The apparent low bidder is Civil Engineering Construction, Inc. of Loomis, CA. Bids received were as follows:

1. Civil Engineering Construction, Inc. $472,995.00
2. Caggiano General Engineering $485,844.00
3. TerraCon Pipelines $487,772.00
4. Lund Construction $569,970.00

The District’s budget estimate for construction of the Project was: $368,970.00. Directors and staff discussed the project and the bids received.

It was moved by Director Dains, seconded by Director Goforth and carried 3-0 to accept the bid of Civil Engineering Construction, Inc. in the amount of $472,995.00 and establish a change order contingency fund in the amount of $47,000.00, and to authorize the General Manager to execute the contract.

PROJECT MANAGER’S REPORT

PM Dietrich presented a report on the following activities during the month of August 2013 by the Project Management and Engineering Department:

- Accepted water systems:
  
  - 7632 Sunrise Boulevard, Citrus Heights, McDonald’s Restaurant
    59 lineal feet (lf) of 8-inch water main, 34 lf of 6-inch water main, 1 8-inch gate valve, 1 6-inch post indicator valve, 2 fire hydrants, 1 1.5-inch metered water service and 1 1-inch metered water service.
    Value: $39,000
• 6105 Sunrise Vista Drive, Citrus Heights, India Oven Restaurant
  Various concrete access pads, painting of facilities and weather freeze bags.
  Value: $0 (no added value to CHWD water system)

• Projects under construction or pending construction by private contractors and developers including:
  • Brake Masters, 8000 Greenback Lane, Citrus Heights.

• Project development/design underway by District staff including:
  • Old Auburn Road 18-Inch Water Main and Mariposa Avenue 12-Inch Water Main Replacement project.
  • Old Auburn Road 14-Inch Water Main Extension project.
  • Palm Avenue 12-Inch Water Main, Castle Street 8-Inch Water Main and Kilborn Drive/Ronnie Street/Billie Street 8- and 6-Inch Water Mains Replacement project.
  • Park Drive 8-Inch Water Main and Poplar Avenue 8-Inch Water Main Replacement project.
  • Mariposa Avenue 24-Inch Water Main and San Juan High School 24-Inch Water Main Replacement / Extension project.

• Projects contracted by the District, including:
  • Northgrove Way 6-Inch Water Main and Walnut Drive 8-Inch Water Main Replacement project.

• Coordination and inspection is underway with the City of Citrus Heights on the following City projects:
  • Auburn Boulevard Joint Trench Utility Undergrounding Project;
  • Watson Way Drainage Improvement Project;
  • Linden Avenue Drainage Improvement Project;
  • Glenn Avenue, Patton Avenue and Loleta Avenue Drainage Improvement Project;
  • 2013 Arterial Street Resurfacing Project;
  • 2013 Residential Street Resurfacing Project; and
  • Auburn Boulevard Widening Project.
OPERATIONS MANAGER’S REPORT

OM Townsel reported as follows:

1. A total of 356 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. An update on District-wide water consumption for the calendar year 2013 through the end of August 2013 was not presented due to the water deliveries from San Juan Water District for the month of August not yet being available.

Director Dion called a recess to the meeting at 7:59 p.m. OM Townsel, PM Dietrich, OA Peters, WDS Cutler, WQT Tupper and Melinda Tupper left the meeting.

Director Dion reconvened the meeting at 8:06 p.m.

DIRECTOR’S AND REPRESENTATIVES REPORTS:

Director Dion reported on an upcoming meeting of the Regional Water Authority (RWA). He also reported on a recent San Juan Water District Executive Committee meeting that he attended along with GM Churchill and AGM Kane.

Director Dion reported on the Joint Wholesale Board Briefing at San Juan Water District (SJWD) regarding SJWD wholesale water rights, contracts and water supply, that he attended long with GM Churchill and AGM Kane.

GMC Churchill reported on information received from the Association of California Water Agencies regarding nominations for committee appointments.

ASSISTANT GENERAL MANAGER’S REPORT

1. Directors were provided with a summary of Water Efficiency Program activities during the month of August 2013, including the number of ultra-low-flush toilet rebates issued. It was noted that District has received virtually no response or inquiries from customers regarding San Juan Water District’s recent voluntary Stage 2 water conservation announcement.

2. Three recruitments to fill vacant or soon-to-be vacated positions are underway:
   
   • Water Distribution Operator. Following interviews of eight candidates in early August, the top two candidates were recently invited back for testing for the position. An offer has been extended to the top candidate and is now pending completion of pre-employment conditions. It is hoped that the new employee will start work with the District later in September.
• **Accounts Receivable Specialist.** Interviews to select an employee for this vacant position were conducted in early August and the top four candidates were invited back for testing later in the month. An offer has been extended to the top candidate and is now pending completion of pre-employment conditions. It is hoped that the new employee will start work with the District later in September.

• **Customer Service Administrator.** This is a new position title for the Assessor/Collector position currently held by Nancy Alaniz. The application period closed on August 19, 2013, and applications are currently being screened. Interviews will be scheduled for early to mid-September. This position will become vacant when Ms. Alaniz retires on November 7, 2013. Hiring of a new employee before Nancy’s departure is planned to allow for a training period.

3. AGM Kane has been appointed to serve on a committee that will draft a Code of Conduct for the Association of California Water Agencies Board of Directors as required in ACWA’s most recent update of its bylaws. The work group will meet during September and October to work on the draft.

**GENERAL MANAGER’S REPORT**

GM Churchill reported as follows:

1. Twenty-two District employees received recognition for superior attendance, outstanding customer service and quality of work during the month of August 2013. Directors were provided with a list of the employees and items for which each received recognition.

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

**CORRESPONDENCE**

Correspondence was discussed and ordered filed as follows:

1. Letter dated July 25, 2013 from Kathy Sasabuchi, Communications Liaison, San Juan Alumni Association, thanking CHWD for its sponsorship of a centennial banner for San Juan High School’s Centennial Celebration.

**CLOSED SESSION**

Pursuant to subdivision (b)(3)(A) of Government Code Section 54956.9 (two cases), Anticipated Litigation, significant exposure to litigation, the Board of Directors convened in Closed Session at 8:30 p.m. to receive a report from District Legal Counsel Judy Albietz. Directors Dains, Dion and Goforth, GM Churchill and AGM Kane were in attendance.
President Dion reconvened the meeting into Open Session at 8:35 p.m. He reported that no action was taken by the Board in Closed Session.

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 8:37 p.m.

Original signed by: Robert A. Churchill
ROBERT A. CHURCHILL
Secretary
Citrus Heights Water District

Original signed by: Joseph M. Dion
JOSEPH M. DION, President
Board of Directors
Citrus Heights Water District