

MINUTES OF

NORTH BEACH WATER DISTRICT

June 2, 2008

Water Commissioners

Present: Brian Sheldon Gwen Brake RD Williams

Others Present: Tom Morrow Neil Emond John Adams
Tom Downer Bonnie Larini Diana Thompson
Debra Richmond Rob Richmond

The meeting was opened at 6 PM by President Sheldon. A quorum was present.

The minutes of May 5 were presented for approval. MOTION BY COMMISSIONER WILLIAMS TO APPROVE. SECONDED BY PRESIDENT SHELDON. MOTION CARRIED.

President Sheldon opened the meeting for presentations from the audience. No comments. Commissioner Williams presented an article from the Santa Cruz Sentinel about the recent sale of a water utility in California of 1330 customers for \$10.5 million dollars. Copies were distributed.

Budget status – President Sheldon stated that the district has no budget, so there are no new reports.

Reports – North Beach Water PDA transition status. President Sheldon is working with PDA Directors Weatherbee and Downer. A meeting on May 14 was held to discuss the transfer of utility assets and liabilities to the district. Brad Weatherbee agreed to contact Pacific County regarding transfer requirements. President Sheldon agreed to contact the District's Attorney to prepare transfer documents. Draft agreements will be discussed later in the agenda.

Reports – Loan Documents. Commissioner Brake contacted Ron Olson of Cashmere Valley Bank. Olson stated that the transfer of the loan would be a simple procedure because the PDA had set up the original agreement with the intent of creating a district. Transferring the loan will require a Letter Requesting the Transfer and a copy of the actual legal Transfer Agreement prepared by attorneys. Commissioner Brake is attempting to contact the Public Works officer in charge of the North Beach Water PDA loans.

Reports – Financial/Due Diligence Proposal from Herta Fairbanks of HDR. Herta Fairbanks, Senior Financial Analyst of HDR Engineering gave a

comprehensive presentation that provided an overview of water district financing, explained why establishing and maintaining cost-based rates is important, and reviewed the generally accepted methodologies used to establish cost-based rates. (Copy of the presentation is attached.) She answered questions from commissioners throughout the presentation and reminded commissioners of the proposal by submitted by HDR on April 21. Ms. Fairbanks recommended that the board review her proposal and define guidelines and scope of her work with the district. Anticipated cost for consulting services for the district is approximately \$10,000-\$15,000. She presented the board a copy of the "2007 Annual Financial Reporting Package" prepared by the State Auditor's Office. Ms. Fairbanks was thanked for her presentation.

Old Business:

Resolution 04-2008 Adopting Official Seal for the District. Commissioner Brake recommended that the district hire an outside graphic designer. She acknowledged the acceptance of samples provided by Commissioner Williams. Commissioner Williams has asked Mark Scott to draft a design based on the Cape Columbia logo. THE RESOLUTION WAS TABLED UNTIL THE NEXT MEETING.

Resolution 11-2008 Appointment of Agent for Claims for Damages.

President Sheldon reminded commissioners that this resolution was discussed at last meeting and wording was recommended. Commissioner Williams edited it further to eliminate the reference to North Beach Water, a tradename only. COMMISSIONER BRAKE MOVED THAT THE RESOLUTION BE ADOPTED AS AMENDED. THE MOTION WAS SECONDED BY PRESIDENT SHELDON. MOTION CARRIED.

Discuss Resolution 12-2008 Establishing Service Charges, Connection Charges and Service Regulations.

Commissioner Williams stated that the board really needs to adopt what is in place under the PDA. President Sheldon commented that the district has not had an opportunity to comment on these policies. He had sent out proposed amendments in March with no action taken by the PDA. Commissioner Brake stated that the same discussion had occurred at the previous meeting and if changes were to be made, it should be in a workshop. COMMISSIONER WILLIAMS MOVED TO ADOPT THE RESOLUTION. COMMISSIONER BRAKE SECONDED THE MOTION. MOTION CARRIED. (The document will be signed at the next meeting.) Commissioner Brake recommended that this resolution be put on the agenda again after the transfer is complete.

Discuss Resolution 13-2008 Establishment of Funds with County

Treasurer. President Sheldon said that the PDA had not created a formal resolution to establish funds with the county. Commissioner Williams said the relationship was established under Ordinance 155. Commissioner Williams

offered to write this resolution for the district. COMMISSIONER WILLIAMS MOVED TO TABLE FURTHER DISCUSSION. COMMISSIONER BRAKE SECONDED THE MOTION. THE MOTION CARRIED.

Discuss Resolution 14-2008 Adoption of NBW Policies and Procedures Handbook. President Sheldon had created a draft resolution at one time. He noted that the PDA adopted a resolution on November 19, 2007. Commissioner Williams offered a recommendation to the board with text formalizing the adoption of the existing PDA handbook by the district. COMMISSIONER WILLIAMS MOVED TO ADOPT THE RESOLUTION AS PRESENTED. PRESIDENT SHELDON SECONDED. THE MOTION CARRIED.

Discuss Resolution 15-2008 Issuance of Water Availability Certificates. President Sheldon noted that the PDA had adopted the Pacific County water availability notification. Commissioner Williams added that water availability certificate is a county document. Essentially, if water is available, the county will issue a well permit. He suggested a need for tighter regulations between the district and the county regarding this issue. PRESIDENT SHELDON SUGGESTED THAT THE MOTION BE TABLED UNTIL WE CAN ADDRESS THIS WITH THE COUNTY. COMMISSIONER BRAKE SECONDED THE MOTION. THE MOTION CARRIED.

Discuss Resolution 16-2008 Obtaining Insurance Coverage from WGEP. President Sheldon suggested this be done as part of the transfer of PDA assets and liabilities since the district currently has no budget. PRESIDENT SHELDON MOVED TO TABLE THIS RESOLUTION UNTIL THE TRANSFER BEGINS. COMMISSIONER BRAKE SECONDED THE MOTION. THE MOTION CARRIED.

New Business:

Resolution 17-2008 Indemnity and Defense of District Commissioners. President Sheldon stated that Rod Kaseguma, the district's attorney, prepared this resolution. Commissioner Williams said he would support the resolution but it needs to be reformatted (bad page break). PRESIDENT SHELDON MOVED TO ADOPT THE RESOLUTION. COMMISSIONER WILLIAMS SECONDED. MOTION CARRIED. Commissioner Williams will bring a reformatted copy.

Letter to the North Beach PDA regarding delivery of real property documents for and diagrams/blueprints of the water system AND The draft acquisition/transfer agreement for the water system.

President Sheldon stated that the documents had been prepared by the district's attorney. He stated that these documents represent one side of the proposal. He suggested that the board edit the documents in a workshop. Commissioner Williams asked why this document would be presented to the board without input from the PDA transfer committee. President Sheldon suggested this is a

beginning document to be reviewed by the PDA board and their attorney. A workshop was tentatively scheduled for Tuesday at 6PM pending the availability of the Fire Hall. President Sheldon asked about the availability of the PDA conference room. Commissioner Williams said he did not know its availability. Commissioner Brake suggested that at some point the board will have to rely on the attorney to draft the final documents --- that a transfer committee will not be able to prepare these documents using the appropriate legalese. President Sheldon requested that another issue for a workshop is to have an update regarding the seven steps of due diligence recommended by the attorney.

Water Rate Study Review Proposal. President Sheldon stated that he created a rate proposal based on the numbers offered by Mike Berlien similar to Alternative #1. He explained how he arrived at his numbers using a 5% inflation rate, maintaining an operational reserve, and lowering the capital reserve to \$750,000 from \$1.1 million. Commissioner Williams stated that he didn't understand how we could lower the capital reserve fund. President Sheldon said we had \$100,000 in reserve now and we need to consider what we need versus what we want. Commissioner Williams commented that the only funding available to us for construction are Public Works Bonds not grants. Commissioner Brake noted that Alternative Rate #1 had a lower capital reserve than his proposal and allowed for no capital reserves for Year 2008. An audience member asked if the decision needed to be made this evening. Commissioner Williams explained that the PDA is going to take action on this on the 16th. That the PDA asked the district to support one of the proposals.

Commissioner Williams reminded the board that the PDA had fallen below the 1.25 requirement that is necessary for the Water Revenue Bond. Section II in the covenants and agreements lists specific responsibilities regarding gross revenues needed to maintain that bond. We've fallen below that level and that was the basis for the Rate Study. We have a sworn financial responsibility to operate this utility in a financially sound manner. Alternative Rate #1 doesn't accomplish what we need to accomplish. Another audience member suggested that capital reserves were critical for emergency issues like the winter storm. President Sheldon responded that at the end of 5 years, we will have 50% reserves in the operational funds in case of emergency. Commissioner Williams reminded the board that it has the right to review rates on an annual basis. This is a business plan and the first couple of years doesn't allow for much cash flow. Audience member asked if capital reserve would be used to grow the system. President Sheldon said capital reserves would be used for improvements. The goal of the Water System Plan is to facilitate growth not promote it.

COMMISSIONER BRAKE MOVED TO ADOPT ALTERNATIVE RATE #1 WITH THE EXCEPTION OF A 15% INCREASE FOR 2008 TO MAINTAIN A HIGHER CAPITAL RESERVE. MOTION FAILED. PRESIDENT SHELDON MOVED TO ADOPT HIS PROPOSAL WHICH ESTABLISHES A 12%, 10%, 7%, 6% AND 4% RATE INCREASE SCHEDULE FOR THE YEARS 2008-2012 AND ACCOMPLISHES THE OBJECTIVE OF A HIGHER CAPITAL RESERVE. COMMISSIONER BRAKE SECONDED THE MOTION. COMMISSIONER WILLIAMS VOTED NO. THE MOTION PASSED. Commissioner Brake asked Commissioner Williams if Mike Berlien would work these numbers into a more readable form for the PDA. President Sheldon will forward this recommendation to the PDA.

Correspondence: President Sheldon received some derogatory emails from PDA members and hoped that this communication would stop. Commissioner Williams asked that specific issues be addressed to the correct members of the board.

Meeting was adjourned at 9:15PM.

Respectfully submitted



Gwen Brake, Secretary

Attest:



Brian Sheldon, President

RD Williams, Commissioner