

TO: BOARD OF DIRECTORS
FROM: BRUCE BUEL
DATE: SEPT. 5, 2008



COMMITTEE REPORTS

ITEM

Review Committee Matters.

BACKGROUND

Attached are minutes from the Sept 1, 2008 AD HOC Blacklake Sewer Rate Adjustment Committee Meeting. Director Winn or Director Trotter may wish to add comments at the Board Meeting.

Attached are minutes from the Sept 3, 2008 AD HOC Blacklake Sewer Rate Adjustment Committee Meeting. Director Winn or Director Trotter may wish to add comments at the Board Meeting.

The Water Conservation Committee is scheduled to meet again at 10am on Monday September 8, 2008.

The Supplemental Water Project Design and Construction Committee is scheduled to meet again at 1pm on Monday September 8, 2008.

RECOMMENDATION

It is recommended that your Honorable Board discuss the meetings as appropriate.

ATTACHMENT

- 9/1/08 AD HOC COMMITTEE MEETING MINUTES
- 9/3/08 AD HOC COMMITTEE MEETING MINUTES

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MINUTES OF THE 9/1/08 MEETING OF THE AD HOC BLACKLAKE SEWER RATE ADJUSTMENT COMMITTEE

1. CALL TO ORDER, ROLL CALL AND FLAG SALUTE

Chairman Winn called the Special Meeting to order at 1:00 p.m. in the NCSD Board Chambers. Both Chairman Winn and Director Trotter were in attendance along with NCSD General Manager Bruce Buel. There were also six members of the public present including Ian Wallace, Jim Appel, Nancy Fleming and Bill Nelson as representatives of the Blacklake Village Master Association Board of Directors.

2. DISCUSS PROPOSED BLACKLAKE SEWER DIVISION RATE ADJUSTMENT

Mike Winn suggested that the Committee focus on issues of concern to Blacklake. At Cliff Trotter's suggestion, Jim Appel reviewed his question regarding the feasibility of Blacklake running the Blacklake Sewer System instead of NCSD and his conclusion that such an arrangement was probably not practical. Bill Nelson reviewed the history regarding District ownership and operation of the system. Bruce Buel reviewed the major assumptions set forth in the Reed Report and compared the three rate options set forth in the report with the fourth option described in Bob Reed's e-mail. Ian Wallace questioned the funding set forth in the FY08-09 Budget for professional consultants and asked if staff could do some of this work instead. Bruce Buel responded with an explanation of staffing levels and the availability of time for the General Manager and the District Engineer to work on projects.

Mike Winn asked for feedback on the four rate Alternatives. Jim Appel asked "Where is it going to stop; why does NCSD need so much money; and how are the Blacklake Customers going to pay for the massive increases?" Cliff Trotter expressed his commitment and the Board's commitment to minimize the rate increases while providing sufficient funding to pay for the prudent operation of the system. Jim Appel urged both the NCSD Board and the Blacklake Village Master Association Board to: 1) Impress on their constituents the necessity of the proposed expenditures and 2) the necessity of electing a viable funding program that supports the continued integrity of the sewer system, albeit with some initial painful funding, to secure a long-lasting, yet stable and reasonable cost for years to come. Bruce Buel encouraged proactive feedback from Blacklake regarding operations and budgeting.

9/1/08 Ad Hoc Blacklake Sewer Rate Adjustment Comm Meeting Minutes (Cont.)

Mike Winn indicated that he did not like Alternatives A or C and his hope that Alternative D could be revised to provide for the minimum possible rate increases to bring negative fund balances up to even within a three year window while deferring \$368,850 in Maintenance Projects. Bruce Buel asked that these deferments be identified clearly, with the clear notation that if the needed to be done sooner than three years away that a supplemental rate adjustment would be required. Jim Appel agreed that Option A carried an unacceptable level of sticker shock. Cliff Trotter urged the Board and Blacklake to provide maximum information to the Blacklake Customers during the Proposition 218 process. Bruce Buel proposed that the Committee assemble at 10am on Wednesday so that they could interact with Bob Reed and refine Option D.

Jim Appel asked if the magnitude of Funded Replacement could be reduced so as to minimize the rate increase. Bill Nelson responded that it was vital that adequate reserves be available to respond to emergencies and changed situations. Bill Nelson further observed that the biggest failure of the 2005 Rate Study was its failure to provide sufficient funding to respond to the failure of the pond 1 and 3 liners. Ian Wallace asked if operations cost could be reduced by converting the surface aerators back to sub-surface aerators. Bruce Buel responded that the surface aerators were not only less expensive to operate but they did a better job. Ian Wallace inquired as to the frequent replacement of surface aerator motors. Bruce Buel responded that the sewer system did not have headworks to remove rags and debris so that these materials frequently clogged the motors, but the cost of the motor rewind was substantially less than construction of headworks.

Ian Wallace asked about the cost of installing the retainer bars after pond 3 was relined. Bruce Buel reviewed the decisions and the resulting cost with the conclusion that the engineer's experiment to reduce costs had been acceptable and did not cost Blacklake extra money to remedy.

3. SET NEXT MEETING DATE

The Committee agreed to meet again at 10am on Wednesday 9/3 at NCSD.

The meeting was adjourned at 2:31 p.m.

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MINUTES OF THE 9/3/08 MEETING OF THE AD HOC BLACKLAKE SEWER RATE ADJUSTMENT COMMITTEE

1. CALL TO ORDER, ROLL CALL AND FLAG SALUTE

Chairman Winn called the Special Meeting to order at 10:00 a.m. in the NCSD Board Chambers. Both Chairman Winn and Director Trotter were in attendance along with NCSD General Manager Bruce Buel and rate consultant Bob Reed (via phone). There were also five members of the public present, including Ian Wallace, Jim Appel, Nancy Fleming and Bill Nelson as representatives of the Blacklake Village Master Association Board of Directors.

2. DISCUSS PROPOSED BLACKLAKE SEWER DIVISION RATE ADJUSTMENT

Bruce Buel summarized the Committee's 9/1/08 discussion and asked Bob Reed to comment on how Alternative D could be truncated into three years instead of the four years set forth in Bob Reed's e-mail. Bob Reed responded that if the goal was to achieve an initial funding equilibrium in three years, then the rate increases would be 40% in 2009, 13% in 2010, 13% in 2010, 0% in 2011, and 0% in 2012. Bob Reed indicated that subsequent increases would be necessary in 2013 and beyond.

Mike Winn requested that Bob Reed place a prominent footnote at the bottom of page 26 noting the deferment of the three capital projects. Mike Winn also noted that the standard for sewer operating reserves was 25% as proposed in the draft Rate Study. Mike Winn asked if the deferment of the replacement collection line would result in increased O&M costs. Bruce Buel responded that NCSD spends between \$3,000 and \$6,000 per year on flushing services with the dip in the line, whereas this cost would drop to about \$1,400 every other year if the sewer line was rebuilt.

Jim Appel questioned the prudence of proposing zero rate increases in 2011 and 2012 when it will be necessary to seek substantial rate increases in 2013 and beyond. Committee discussion followed on this issue with the consensus that it would be better to propose modest rate increases in 2012 and 2013. Bob Reed indicated that if NCSD wishes to achieve stable financing by 2011 and then anticipate future cost increases in 2012 and 2013, then the rate pattern could be 40% in 2009, 11% in 2010, 11% in 2011, 5% in 2012 and 5% in 2013. Bill Nelson observed that there were regulatory uncertainties that could affect future rates and that these uncertainties should be explained up front so that everyone was aware. Bruce Buel also reminded the Committee that the deferred capital improvements could also require out-year rate increases and that some type of sinking fund may be necessary to avoid sticker shock. Bob Reed responded that the proposed rates should allow for transfers to the Replacement Fund in 2011, 2012 and 2013 such that funds would be available to pay for the cost of the deferred capital projects.

9/3/08 Ad Hoc Blacklake Sewer Rate Adjustment Comm Meeting Minutes (Cont.)

Mike Winn recalled Bill Nelson's proposal to discount Replacement Fund contributions to recognize that not all assets fail as early as predicted and asked if the dollar value of the replacement fund contributions for Blacklake Sewer should be discounted. Bruce Buel indicated that the discount should be made to the cumulative target instead of the annual contributions and that Blacklake's current Replacement Fund balance was negative and the projected fund balance at 2013 was 10% of the recommended target.

Ian Wallace asked if the future cost of the Pond 2 liner replacement would be lower based on the experience at Ponds 1 and 3. Bruce Buel indicated that the projected cost of Pond 2 was based on the cost savings realized upon construction of Pond 3.

Jim Appel asked if Blacklake residents could expect a future sewer rate decrease once the large increases were implemented. Bob Reed responded that the large initial increases were necessary to get the contribution levels up to the minimum and then to provide funding for replacement. Bob Reed indicated that he could not forecast any future decrease in rates.

Cliff Trotter encouraged both Blacklake Village Master Association Board and NCSD to provide maximum information on the rate increase to Blacklake customers and owners. He further suggested that the information include a disclaimer regarding potential changes to regulations.

The Committee discussed the problem of high discharge salts at the Blacklake WWTF. The Committee agreed, by consensus, that an active outreach program was necessary to reduce salt loading from the customers into the WWTF.

Jim Appel requested feedback on the \$275,000 loan and how the loan related to the proposed user fees. Bob Reed explained the basis for the loan and expressed his opinion that the \$275,000 was the minimum necessary contribution to cover the negative fund balance and to provide a minimum starting fund balance in the operating fund. Bruce Buel explained that the loan would be paid back either as a lump-sum payment or in installment payments separate from the increase in the user fee. Jim Appel indicated that the two different increases were difficult to understand and deserved a very clear description in the information provided to Blacklake customers and property owners. The Committee agreed that it would be useful for the press to cover this issue and to provide accurate information. Bill Nelson suggested that the descriptions of the proposal provide background history starting with the 2005 Rate Study.

The Committee discussed the process and the timeline. Bob Reed agreed to write up the new Alternative D for presentation to the NCSD Board on September 10, 2008. If the Board can select a proposed concept on September 10, then Bob Reed can revise his Rate Study for Board consideration on October 8, 2008. Bruce Buel indicated that a Protest Hearing could then be held on December 10, 2008.

Nancy Fleming expressed her hope that there will only be one protest proceeding and that Blacklake residents get maximum information so they can make an informed decision.

The meeting was adjourned at 11:15 a.m.