



Approved
(as corrected)
June 28, 2010

MINUTES
of the Budget Workshop
Monterey Regional Water Pollution Control Agency
Board of Directors
June 10, 2010

1. CALL TO ORDER

The Budget Workshop for the Board of Directors of the Monterey Regional Water Pollution Control Agency was Called to Order by Chair Calcagno at 7:02 p.m., on Thursday, June 10, 2010, in the Board Room at 5 Harris Court, Building D, Monterey, California.

2. PLEDGE OF ALLEGIANCE

Vice Chair Stefani led the Pledge of Allegiance.

3. ROLL CALL

BOARD MEMBERS PRESENT:

Lou Calcagno, Chair	County of Monterey, Supervisor
Ron Stefani, Vice Chair	Castroville Community Services District
Ramiro Cortez	Boronda County Sanitation District
Dennis Allion	Del Rey Oaks, Councilmember
Kenneth Nishi	Marina Coast Water District, Vice President
Libby Downey	Monterey, Councilmember
<i>Chris Orman</i>	<i>Moss Landing County Sanitation District</i>
Gloria De La Rosa	Salinas, Mayor Pro Tem
Dave Pendergrass	Sand City, Mayor
Steve Bloomer	Seaside, Mayor Pro Tem
Vacant – Ex-Officio	U.S. Army, Representative

BOARD MEMBERS ABSENT:

Carmelita Garcia	Pacific Grove, Mayor
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MRWPCA STAFF PRESENT:

Keith Israel	General Manager
Brad Hagemann	Assistant General Manager
Rob Wellington	Legal Counsel
John Tiernan	Director of Adm Services/Deputy GM
Tom Buell	Director of Finance
Mark Malanka	Maintenance Manager
Kelly Cadiente	Accounting Supervisor
Lindsay Synstebly	Customer Service Supervisor
Betty Nebb	Executive Assistant

OTHERS PRESENT:

Artie Fields – City of Salinas
Frank Aguayo – City of Salinas
Jeff Krebs – City of Monterey
Carl Niizawa – Marina Coast Water District

4. PUBLIC COMMENTS

At 7:03 p.m., Chair Calcagno opened and closed Public Comments.

5. CONMITTEE REPORTS AND RELATED ACTION ITEMS

A. Budget/Personnel Committee

1. Receive Committee Recommendations from BPC Meeting of May 28, 2008

A. Agenda Item 1 - Review Proposed User Rate Alternatives

Mr. Tiernan stated the Committee developed a recommendation for the Board's consideration.

- **That the Board approve the recommendation to increase monthly user rates by \$.90 (8.4%) beginning August 1, 2010, reduce the reserve requirement for the Capital Equipment Fund to \$1 million , and combine the Major O&M Repair Fund with the General Fund. In addition, the BPC has requested staff will provide a preliminary report on the proposed 5-year and 10-year CIP in September 2010, with a follow up report in January 2011, and a final version of the CIP in May 2011 for consideration in the FY 2011/12 Budget.**

B. Agenda Item 2 – Preliminary Discussion of City of Salinas May 24 Request for New Conveyance Pipeline

Mr. Israel announced that this Committee agenda item would be discussed by the full Board after presentation of the Budget for FY 2010/11 as Agenda Item 7.

➤ Information only – no action needed.

C. Agenda Item 3 – CLOSED SESSION

- i. Conference with Labor Negotiator/Employee Organizations:
GEA, MMEG, MEG
- ii. Personnel Matter/Public Employee Performance Evaluation:
General Manager

➤ Information only – no action needed.

ACTION TAKEN: On a motion by Mr. Orman, seconded by Ms. Downey, the Board unanimously approved the Budget/Personnel Committee Minutes for Friday, June 11, 2010.

6. 2010/2011 BUDGET SUMMARY

A. Budget Comments	General Manager
B. Rates/Rate Model Overview	Dir of Adm Services/Deputy GM
C. O&M Expenditures/Revenues	Dir of Adm Services/Deputy GM
D. Reserves/Fund Balances	Dir of Adm Services/Deputy GM
E. Capital Projects	Asst General Manager
F. Investments Update	Director of Finance

Mr. Israel noted that this Agency has a regional focus to provide services for all our members. We are able to do that because we stress efficient operations, financial stability and have distinguished this organization as a leader in the wastewater and recycled water industry. During budget planning, we have emphasized holding the line on staff and operation costs, reduced service contracts and applied the Board's conservative approach to prepare for the future.

Mr. Israel stated that in the coming year the 5-year and 10-year Capital Improvement Program (CIP) will be refined and finalized and a thorough analysis will be done to determine how this program will be financed. In April, the Salinas River Diversion Facility started and river water is now being processed for agricultural irrigation. Over 45 billion gallons of recycled water for crop irrigation use has been produced since the reclamation project began in 1998. Efficient operations of the CSIP and SVRP have resulted in \$2.4m in budgeted funds being returned to the County.

Progress has been made on the Regional Water Project with Urban Reclamation and Replenishment remaining as first and second phase components of the regional effort. Work should begin on these projects as funding sources are identified.

As a Grade V facility, our plant operations continue to be very successful. This year CWEA Monterey Bay recognized MRWPCA as Large Plant of the Year and one of our operators and a supervisor were also honored. A special project at the RTP has been the development of the Solar Project that will ultimately provide energy savings from 12% to 30% in electrical costs for the tertiary plant (SVRP).

Mr. Israel stated that over the last two years, 5 member entities out of 11 are new representatives to the MRWPCA Board. Staff welcomes the new members and the regional cooperation that has made this Board successful.

Mr. Tiernan presented the Draft Budget and explained that the BPC had met three times to work on the budget and to prepare their recommendation for the Board's consideration. The committee directed staff to create a draft budget based on a user rate increase of 90 cents – an increase from \$11.10 to \$12.00 per month for residential users. Due to the relatively low increase in construction costs, as shown through the Engineering News Records data, there will be no change in capacity fees this year. He explained that Proposition 218 requires a 45-day notice of the increase be sent to ratepayers prior to implementation on August 1, 2010.

Mr. Tiernan provided a comprehensive review of the draft budget information:

- Maintain the bond covenant – net income of 25% more than the bond debt cost
- 5% increase in both revenues and expenditures
- Rate increase will result in \$1.3m in new revenue
- Revenues in Brine Receiving and Diluted Oil Waste are declining
- Interest income low
- Salary and Benefits only slight increase – no COLA
- CSIP and SVRP operated under budget, over eight years \$2.4m has been returned to MCWRA
- New project Salinas River Diversion Facilities funded by County
- Recommended changes to Reserve Funds:
 - i. Reduce balance of Capital Equipment Fund to \$1m
 - ii. Provide money for the Major O&M Repair Fund from General Fund
- Budget meets Board policy to maintain \$3.6m reserve in General Fund (\$6m is the projected ending balance for 2010/11)

Mr. Tiernan stated the final Budget will be presented to the Board for approval on June 28. There will be a Public Hearing at the July 26 Board meeting to address any protests for the 90 cent user fee increase which becomes effective August 1, 2010.

Mr. Hagemann addressed the Capital Improvement Program and explained that staff is continuing to refine the short-, medium-, and long-term Capital Improvement Plan (CIP). Preliminary cost estimate for the CIP over the next 10 years is \$45m. Capital Projects that will be completed during this next budget year will total \$4.3m and include these major projects:

- \$1.8m pump station repair/enhancement
 - Repair valves, gates, and concrete corrosion at various stations (\$700k)
 - Electrical upgrades and back-up power replacements at Reeside, Fountain Avenue, and Coral Street (\$525k)
 - Salinas Pump Station/Conveyance System (\$100k)
 - Salinas Pump Station Inlet Rehab (\$300k)

- \$2.5m regional treatment plant
 - Digester gas blending and storage (\$530k)
 - Complete Headworks Bar Screen (\$750k)
 - Complete Class A/B Water System (\$280k)
 - Several large plant Maintenance and Rehab Projects (\$600k)

Mr. Buell reviewed current investments and stated interest from investments continues to be less than previous years. The majority of agency investment dollars are currently with LAIF earning .56% without any viable options available to earn more. He assured the Board that staff monitors US Treasury rates for opportunities to increase interest earnings.

Mr. Buell also explained the collection system user fees – six member entities add a percentage to our user fee to operate and maintain their collection system: Monterey, Pacific Grove, Salinas and Seaside County Sanitation District (Del Rey Oaks, Sand City and Seaside). Since the Agency is proposing to increase our user fee, entities that retain their existing percentage will have to send out a Prop 218 notice to their customers since their rates would also increase proportionally. Alternatively, staff suggests that the percentage level be slightly reduced so that the collection system user charge remains the same to those ratepayers. He stated that a letter has been sent to each of the six entities providing this information and an indemnity agreement to hold the agency harmless with regards to fees the MRWPCA collects for each entity's collection system.

Mr. Allion asked about the difference between the amount of funds invested and the amount shown in the reserve accounts. Ms. Cadiente answered that the reserves include bond money that is being held by a trustee until needed and cash; the investments reflect only money available in reserve accounts.

Mr. Bloomer asked about the amount of funds held in General Reserve Fund; Mr. Tiernan responded that Board Policy requires 20% of our operating budget be in General Fund Reserves. He stated that in the proposed budget we anticipate a \$6m balance at year end that may be considered to help fund capital projects in the future years.

After some discussion about building reserves for the CIP and the rate increases that may be needed to fund capital projects, Chair Calcagno provided an overview of what the BPC has been considering. He stated that along with legal counsel's opinion it became apparent that staff needs to further refine the CIP and have full documentation and analysis supporting the need to improve, repair and replace assets and infrastructure before the Board considers future rate increases. At that time staff will be able to analyze how to structure the Prop 218 for a multi-year (up to 5 years) plan to support the CIP. Comments from Mr. Allion and Mr. Nishi supported facing the reality of building revenues now for the CIP and not delay even another year.

Mr. Wellington stated staff has not had the opportunity yet to complete the technical studies to deal with the Salinas proposal and all the other proposed capital projects that would be incorporated into the long-term CIP and associated rate structure. The BPC has given a specific timeline for completed work on the CIP and staff has proposed providing information for each member entity prior to formal Board consideration of additional rate increases. He explained that next year, the Agency would be able to implement a multi-year Prop 218 notice. At that time staff would also have the documentation and further justification to support any increases to our rate payers and pre-empt legal challenges.

Mr. Bloomer suggested this may not be the right time to consider any rate increase because so many in our community are having financial difficulties. He stated that many agencies/cities have had to make cuts to meet their budget. Mr. Nishi noted that for the last 19 years this agency had only very small rate increases and as a result may have to "bite the bullet" now to meet these new costs rather than pass this burden forward. Mr. Pendergrass agreed that it is difficult to ask our customers to pay more, but stated this agency has always been very prudent in their fiscal management. He stated the proposed rate increase will help the infrastructure for all the entities to remain in good repair and that the agency has operated with a decreasing level of staff over the years (from 100 employees down to current level of about 80) even while operations and project work have increased. He continued saying our employees have seen cuts and have agreed this year to forego any COLA increase. The BPC is concerned about the entire system and the importance of maintaining the Regional Treatment Plant facilities. Ms. De La Rosa noted that she supports the proposed 90 cent increase even though she understands any increases are difficult for our customers. She stated it is important to maintain and enhance our infrastructure to ensure successful

operations and that Salinas continues to support their request that a new conveyance pipeline be included in the long-term CIP.

Chair Calcagno called for Public Comments. Mr. Frank Aguayo, City of Salinas Civil Engineer, noted the timelines for the continuing progress on development of the CIP and requested that the Salinas conveyance pipeline be included in the long-term CIP by April 2011. He also asked to present a letter from the Salinas Valley Enterprise Zone that states their concerns that there is capacity for the future growth area.

Chair Calcagno confirmed with staff that the final draft of the CIP could be completed by April 2011 and Mr. Israel explained staff is proceeding with studies regarding solutions for Salinas.

Mr. Artie Fields, City Manager for City of Salinas, stated he is reassured to hear that there is a commitment by this Board for support for the conveyance pipeline. He noted that City staff and Agency staff would encourage an independent review to come to agreement on the most logical option for settling the capacity *issue as there is still disagreement between the City and the Agency*. He indicated his willingness to meet with Mr. Israel to review and come to some conclusion. He noted that Mr. John Fair was suggested as a person who could serve as a facilitator for these discussions and the City was very much in favor of that.

Mr. Allion, referring to the May 24 letter from Salinas, calculated the anticipated growth in Salinas with the estimated flows expected and questioned if it were possible for the flows to be 250 gallons per person per day. Mr. Aguayo explained that would be during peak wet weather flows and there would be other factors that contribute to that number.

Chair Calcagno asked for consensus from the members to allow staff to go forward in their final preparations of the budget for FY 2010/11 and with no objections, the Board proceeded to the next agenda item.

7. INFORMATION ITEM

A. Receive Staff Response to Letter of May 24, 2010, from City of Salinas Requesting new Conveyance Pipeline be included in MRWPCA Capital Improvement Program

Mr. Israel explained the project evaluation process that is used whenever a new project is being proposed/considered for development. He also stated studies have been done that have provided flow information for Salinas and serve as a basis for recommending alternatives to handle sewer capacity and peak wet weather flows. He noted that capacity improvements are already part of the

preliminary CIP (first 5 years) presented in March 2010 and discussed projects completed for Salinas in 2003, 2007, 2008 and 2009.

Mr. Israel stated City staff is not comfortable with the flow measurements we have received through our flow metering studies at the Salinas Pump Station. Fortunately we have several ways to verify these levels: 1) the flow directly from Salinas to the RTP as a part of the total flows to the RTP, and 2) as a part of the total flow processed into recycled water. He noted that the biggest difference between flow conclusions is that the MRWPCA flows are actual measurements compared to the Salinas numbers which are based on projections and calculations. He related the industry experience is seeing population growth with a decline or static level to the flows due to conservation and other factors.

Mr. Israel explained that in the process of determining what will be needed to handle further capacity issues for Salinas, it will be crucial to come to an agreement in regards to what can be expected for peak flows. He confirmed the Agency's commitment to provide adequate and appropriate services for Salinas and was very pleased to know the City would welcome further discussions and the inclusion of Mr. John Fair (former Civil Engineer for Salinas) to facilitate this evaluation process.

Mr. Fields asked for a copy of Mr. Israel's presentation and indicated he welcomed the opportunity to move forward towards some resolution that would satisfy the developers and the environmental documentation that is needed for the Salinas future growth area to be developed.

➤ **Information only – no action needed.**

8. CORRESPONDENCE

A. Letter from Monterey County Water Resources Agency, Notice of Cancellation to Operate and Maintain the CSIP – June 4, 2010

Ms. Downey asked about this notice of cancellation and was concerned that a contract would be cancelled without cause especially when operations had been successful in refunding over \$2.4m back to the County. Chair Calcagno indicated there would be some negotiations related to this between the County and the Agency. Ms. Downey noted that with the Regional Water Project going forward, it would seem a form of governance may be needed to assist in management of resources and operations.

B. Letter from City of Salinas requesting a new pipeline for sewer conveyance from Salinas be included in the MRWPCA Capital Improvement Program – May 24, 2010

Chair Calcagno stated that Mr. Israel's presentation addressed this item.

[Chair Calcagno adjourned Open Session and began Closed Session at 8:49 p.m.]

9. CLOSED SESSION

A. Conference with Labor Negotiator

- i. Agency Negotiator: Keith Israel, General Manager
- ii. Employee Organizations:
 - General Employees Association (GEA)
 - Mid-Management Employees Group (MMEG)
 - Management Employees Group (MEG)

B. Personnel Matter

- i. Public Employee Performance Evaluation: General Manager
- ii. Agency Negotiator: Budget/Personnel Committee

10. POSSIBLE ACTION ON CLOSED SESSION ITEMS

[At 9:14 p.m., the Board came back into Open Session.]

Legal Counsel stated the Board took up both items listed in the Closed Session agenda. With regard to Item A, the Board gave directions to our negotiator; for Item B, the Board concluded its evaluation of the General Manager and confirmed continuation of his service for another year. Chair Calcagno will provide the results of the evaluation to Mr. Israel. No other action was taken.

11. BOARD MEMBER COMMENTS

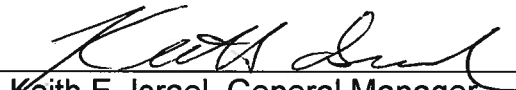
Mr. Orman asked if staff could provide information in a chart that would show what would happen if we don't go forward with rate increases to support the 5- and 10-year CIP.

Mr. Nishi noted that cuts could start at the top and he would be willing to take a 50% reduction in his stipend for service on the Board. Ms. Downey stated anyone, at any time, can forego Board service payments. Mr. Pendergrass added that the Board has already taken steps to reduce payments by limiting the maximum payment per month.

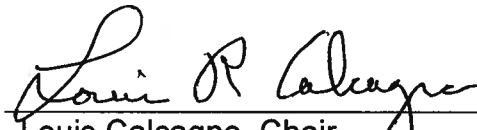
Discussion followed regarding the June meeting that is scheduled to be held in Sand City. Although the Board meeting will begin at 7:00 pm, members are asked to arrive at 6:00 pm in order to have time to tour the new Sand City Desalination Plant. Mr. Israel suggested everyone come to the City Hall where transportation will be available to take groups to the Plant. Refreshments will be served prior to the Board meeting.

12. ADJOURNMENT

With no further business, Chair Calcagno adjourned the meeting at 9:17 p.m. to the next scheduled Board Meeting, in the City Council Chambers at Sand City's City Hall, One Sylvan Drive, Sand City on Monday, June 28, 2010 at 7:00 p.m.



Keith E. Israel, General Manager
Secretary to the Board



Louis Calcagno, Chair
MRWPCA Board of Directors