

**MINUTES OF THE BOARD OF DIRECTORS
MESA CONSOLIDATED WATER DISTRICT
1965 Placentia Avenue, Costa Mesa, CA
Tuesday, November 24, 2009
7:00 p.m. Regular Board Meeting**

CALL TO ORDER

The meeting of the Board of Directors was called to order on November 24, 2009 at 7:00 p.m. by President Dewane at the District Office Boardroom, located at 1965 Placentia Avenue, Costa Mesa, California.

PLEDGE OF ALLEGIANCE

Director Bockmiller led the Pledge of Allegiance.

Directors Present

Shawn Dewane, President
Fred R. Bockmiller, First Vice President
James F. Atkinson, Vice President
Jim Fisler, Vice President

Directors Absent

Trudy Ohlig-Hall, Vice President

Staff Present

Paul E. Shoenberger, P.E., General Manager
Victoria L. Beatley, Financial Services Manager/Treasurer
Robert R. McVicker, District Engineer
Jerry Vilander, Water Operations Manager
Barbara Wiseman, Human Resources Manager
Barry Carlson, Conservation/Customer Service Coordinator
Denise Garcia, Executive Assistant
Rob Anslow, Attorney, Bowie, Arneson, Wiles & Giannone

Others Present

Stephen Mensinger, Commissioner, City of Costa Mesa Planning Commission
Jim Fitzpatrick, Commissioner, City of Costa Mesa Planning Commission
Charles Z. Fedak, Charles Z. Fedak and Company

PUBLIC COMMENTS

President Dewane invited members of the public to address the Board of Directors (Board) on matters that were not on the agenda.

President Dewane acknowledged Messrs. Mensinger and Fitzpatrick and welcomed them to the meeting.

Mr. Fitzpatrick spoke regarding the repositioning and renaming of the CWTF noting he believed it was a worthwhile endeavor. He noted the CTWF is an important asset for Mesa and could be better positioned and named for the valuable contribution it will make in the future. A second request is for the on-line board agenda to contain links to the supporting files which would be helpful when reviewing the materials. In December, the Board is considering a price increase. He noted this

Board is considering a multi-year rate plan; however, would appreciate a discussion on a tiered rate structure.

Mr. Fitzpatrick noted he advocates a tiered rate structure. In addition, would like a discussion on the alternatives the Board may have considered.

President Dewane congratulated Mr. Fitzpatrick on his appointment to the City of Costa Mesa's Planning Commission.

There being no other comments from the public, President Dewane proceeded with the meeting.

ITEMS TO BE ADDED, WITHDRAWN, OR REORDERED ON THE AGENDA

General Manager Shoenberger commented there were no items to be added, withdrawn, or reordered.

I. CONSENT CALENDAR:

- A. Approve minutes of adjourned regular Board meeting of October 30, 2009.
- B. Approve attendance considerations (additions, changes, deletions).
- C. Board Schedule:
 - 1. Tentative Meeting Topics
 - 2. Conference, Seminars, and Meetings
 - 3. Board Calendar
- D. Receive the October 2009 Investment Transaction Report
- E. Approve the annual membership dues to the Association of California Water Agencies in the amount of \$16,558.92.
- F. Approve Change order No. 1 with J. A. Salazar Construction & Supply Corp for an amount not to exceed \$60,000 to replace seven valves and authorize the General Manager to execute the Change Order.
- G. Approve a professional services contract with Tetra Tech for an amount not to exceed \$75,000 to provide an independent review of the engineering design during design development for the technology replacement and expansion of the Colored Water Treatment Facility.
- H. Approve Change Order No. 3 with General Pump Company increasing the contract amount \$21,000 to install an electric motor on the pump at Well No. 4 and Change Order No. 2 with Carollo Engineers increasing the contract amount by \$16,745 to perform color removal testing at Well No. 4.
- I. Approve a purchase order with General Pump Company for an amount not to exceed \$35,000 to remove the existing pump and install a small submersible pump at Well No. 11 to provide water for pilot testing of the membrane treatment system at the Colored Water Treatment Facility.

MOTION 2009-100

Motion by Director Bockmiller, seconded by Director Fisler, to approve Items A through I of the Consent Calendar. Motion passed 4-0-1 with Director Ohlig-Hall absent.

II. PRESENTATION AND DISCUSSION ITEMS:

A. ANNUAL OUTSIDE AUDITORS REPORT FOR THE YEAR ENDED JUNE 30, 2009:

General Manager Shoenberger introduced Financial Services Manager Victoria Beatley. Ms. Beatley introduced Charles Z. Fedak from Charles Z. Fedak and Company who was present to provide an update on the FY09 Audit. Mr. Fedak will review the management letter, the Operations Analysis, the Ratio Analysis and the Comprehensive Annual Financial Report (CAFR).

Mr. Fedak proceeded with a review of the highlights of the CAFR. He directed the Board's attention to the Certificate of Award from the Government Finance Officers Association (GFOA) and noted it is the 16th consecutive year Mesa has received this award.

Mr. Fedak highlighted items in the Management Discussions and Analysis:

- The District's net assets increased 4.6%
- The District's revenues increased 10.5% due to an increase in water rates.
- The District's operating expenses increased 7%
- Capital contributions, capacity charges, and installation fees decreased by \$1.23 million.

He continued with a review of the financial statements.

Director Bockmiller asked if with the low interest rate (< 3.5%) on investments, would it make sense to pay off long term debt which has an interest rate of 3.5%. Mr. Fedak responded that it is a good strategy, but premature at this time.

Ms. Beatley responded that it is a good strategy; however the financial policy that was adopted took into account cash balances. Paying off the debt may have an impact on the Board's goal and timeline to achieve the AAA bond rating.

President Dewane asked staff to develop an analysis based on paying down the debt.

Mr. Fedak commented that the audit of Mesa's FY09 financial information did not identify any material weaknesses.

President Dewane commented that the Board recently implemented a new set of financial policies that will lead the District to an AAA credit rating. He asked to have financial target ratios added so the District knows what the ratios will be when the District achieves its AAA bond rating. This will help the District measure its progress toward that goal.

Mr. Fedak reviewed the management report. In the summary of current year comments, there were none noted. In addition, there is a section in the report to identify any difficulties that may have been encountered in performing the audit. He noted there were none. The audit went very smoothly.

Director Bockmiller asked standard questions which he asks each time an audit is conducted.

Question 1: Who do you work for?

Response: Mr. Fedak responded the auditing team works for the Board.

Questions 2: Do you have a direct means of communication the the Board that does not go through staff?

Response: Mr. Fedak responded, yes we do.

Question 3: Did you receive full cooperation needed to perform the audit?

Response: Mr. Fedak responded, yes we did.

Director Bockmiller commented that John Moorlach former Orange County Treasurer and Orange County Board of Supervisors has spoken on the huge problems that are brewing with pension plans. Director Bockmiller reported that Mesa has no such problems. Mesa has paid off its liabilities and the District is current and fully funded. Mesa does not have such problems because of the foresight and planning of the District and this District insures that its employees' pensions will not become an unnecessary burden on Mesa's ratepayers. Mr. Fedak confirmed the validity of the statement.

Mr. Fedak reviewed the debt ratio. He commented the goal should be 16 to 18%.

He reviewed the Operations Analysis Report covering; variable revenue sources, variable revenue uses, fixed revenue sources, fixed revenue uses and G&A expenses.

President Dewane thanked Mr. Fedak for his presentation and thanked everyone for their efforts in supporting the audit as well as the day to day operations which provides the basis for the reports.

B. IMPLEMENTATION OF MONTHLY BILLING:

General Manager Shoenberger reported that staff has had two different meetings regarding the subject. He noted that Mesa reads the meters every other month and the customer is billed every other month. To change to a monthly billing, the District could read the meters monthly which would require additional meter readers. The District has two meter readers at this time. Or, the District could continue reading the meters every other month, but bill the ratepayers monthly, but splitting the bill into two separate months.

He reported that Conservation/Customer Service Coordinator Carlson looked at this in 1999 and ran a pilot study. Mr. Carlson reported on a pilot program which began in October 1997. A group of customers in four separate routes were notified of the program. There were 1,852 customers who participated in the pilot program. Mr. Carlson reviewed the results.

A survey was conducted with 49% of the customers responding.

Questions	Response
Are you able to track your water usage with your monthly bill?	81% responded yes 5% responded no
Does your monthly bill fit into your payment budget?	80% responded yes 7.3% responded no
Has the monthly billing pilot program been easy for you?	74% responded yes 12% responded no
Do you prefer monthly or bi-monthly billing?	58% responded yes to monthly 30% responded yes to bi-monthly

Mr. Carlson reviewed the improvements the District has made to make the billing process easier for Mesa.

1. Completed the installation of a billing system in 2001.
2. Implementation of outsourcing the billing process in 2001
3. Completed the costing and analysis of touch pad meter reading.

The cost to the District to implement the above noted process improvements was approximately two million dollars.

General Manager Shoenberger advised the Board that software modifications needed to continue bi-monthly billing and implement monthly billings would cost an estimated \$20,000 to \$30,000 and take between four to six months. To implement monthly billings the outsourcing costs for mailings would increase approximately \$100,000 a year and approximately an additional \$15,000 in banking fees, which would result in a rate increase of about 1.5%.

It was agreed there would be no economic benefit to the District, but it would be customer service convenience.

Director Atkinson reported on a recent presentation he attended on automated meter reading (AMR) and the ability to identify the tightness of the water system as a function of the particular meters. He recommended the discussion on monthly meter reading and billings be deferred until the District could receive a presentation on the AMR program and the potential savings the District may get with the AMR program.

Director Fisler noted he concurred with Director Atkinson.

Mr. Carlson reviewed the accounts that are currently billed monthly: Construction accounts (varies by construction project), re-cycled water accounts (33) and 3" or larger meters (176).

Director Bockmiller commented that he would be opposed to a monthly billing system. It would cost the district an additional 1.5% rate increase to cover the costs.

MOTION 2009-101

Motion by Director Bockmiller, seconded by President Dewane, to take action to not adopt a monthly billing program at this time and give direction to revisit the issue when there would be cost savings to the District. Motion passed 4-0-1 with Director Ohlig-Hall absent.

RECESS

President Dewane declared a recess at 8:06 p.m. The Board reconvened at 8:24 p.m.

III. ACTION ITEMS:

- A. NATIONAL WATER RESOURCES ASSOCIATION CALIFORNIA CAUCUS BALLOT:

MOTION 2009-102

Motion by Director Atkinson, seconded by Director Fisler, to authorize Director Bockmiller as the sole selected choice of candidate to the National Water Resources Association (NWRA) California Caucus and authorize the Board President to sign the ballot. Motion passed 4-0-1 with Director Ohlig-Hall absent.

- B. ELECTION OF ASSOCIATION OF CALIFORNIA WATER AGENCIES PRESIDENT AND VICE PRESIDENT FOR THE 2010-2011 TERM:

MOTION 2009-103

Motion by Director Fisler, seconded by Atkinson, to authorize President Dewane to be Mesa's voting delegate for the election of the Association of California Water Agencies (ACWA) President and Vice President and authorize staff to notify ACWA. Motion passed 4-0-1 with Director Ohlig-Hall absent.

- C. CONFLICT OF INTEREST CODE UPDATE:

A discussion ensued regarding the categories of the designated positions. A recommendation was made to move the Human Resources Manager's position from OC-11 to OC-01.

MOTION 2009-104

Motion by Director Bockmiller, seconded by Director Fisler, to adopt Resolution 1382 updating Mesa Consolidated Water District's Conflict of Interest Code with a modification to Exhibit A listing the Human Resources Manager at Disclosure Category OC-01 as opposed to OC-11 and superseding Resolution 1334. Motion passed by the following roll call vote.

AYES: DIRECTORS Atkinson, Fisler, Bockmiller, Dewane
NOES: DIRECTORS None
ABSENT: DIRECTORS Ohlig-Hall
ABSTAIN: DIRECTORS None

D. FIRST AMENDMENT TO MEMORANDUM OF UNDERSTANDING (MOU) REGARDING POTENTIAL WATER PURCHASE AGREEMENT WITH POSEIDON RESOURCES:

General Manager Shoenberger reviewed the purpose of the MOU. Currently, each time an entity wants to enter into a purchase agreement with Poseidon, an amendment is needed. This is a blanket amendment which allows entities to join the group. This amendment is not material to Mesa and staff recommends approval. This amendment allows any of the signatories to the MOU to protest a new member with appropriate reasoning for the protest.

MOTION 2009-105

Motion by Director Bockmiller, seconded by President Dewane, to authorize President Dewane to approve the First Amendment to Memorandum of Understanding regarding potential water purchase agreement with Poseidon Resources and authorize the General Manager to execute the Amendment. Motion passed 4-0-1 with Director Ohlig-Hall absent.

E. CONFIDENTIALITY AGREEMENT REGARDING POTENTIAL WATER PURCHASE AGREEMENT WITH POSEIDON RESOURCES:

General Manager Shoenberger reported the purpose of the confidentiality agreement is to ensure any questions about Poseidon's business model, financial status, etc are not open for discussion in a public forum and the signatories will not be free to share

information about Poseidon. A discussion ensued regarding closed session topics and topics for public record.

MOTION 2009-106

Motion by Director Bockmiller, seconded by Atkinson, to approve the Confidentiality Agreement regarding potential water purchase agreement with Poseidon Resources and authorize the General Manager to execute the Agreement. Motion passed 4-0-1 with Director Ohlig-Hall absent.

F. CLOSED SESSION:

General Manager Shoenberger reported that a closed session is not needed.

1. CONFERENCE WITH REAL PROPERTY NEGOTIATORS –
PURSUANT TO GOVERNMENT CODE SECTION 54956.8:
Property: Capital Project #CM-394 (OC-44 feeder)
District Negotiator: General Manager
Negotiating Parties: Poseidon Resources
Under Negotiation: Possible use of Mesa Consolidated Water District
property by outside company for purposes of delivering desalinated potable
to other agencies.

IV. REPORTS AND INFORMATION ITEMS:

A. REPORT OF THE GENERAL MANAGER:

1. October Key Indicators Report
2. Items of general interest:
 - ◆ Other
 - Mr. Carlson attended a City of Costa Mesa Workshop on landscape maintenance. There is an upcoming Planning Commission meeting, December 14, 2009, which Mr. Carlson has been asked to attend. President Dewane and Director Fisler will also attend.
 - There was a Behind the Scenes Tour at Mesa conducted November 19, 2009 which Director Fisler attended.
 - As chair of ACWA's Desalination Subcommittee, General Manager Shoenberger will be in Sacramento on Monday, November 30, 2009 to attend a meeting with State Board members regarding a proposed desalination policy. Other Orange County general managers will attend (Metropolitan Water District of Southern California, Municipal Water District of Orange County, West Basin, Marin Municipal Water District and representatives from San Diego County Water Authority, East Bay MUD and the City of Santa Cruz). The purpose of the meeting is to engage representatives from the water industry in the formation of the desalination policy. Under discussion will also be the formation of a group to promote desalination in California.
 - Desalination in California – The Board authorized General Manager Shoenberger to move forward up to the limits of his authority to work on the formation of a California desalination group. It is the understanding of this Board that the scope of the group would entail ocean desalination as well as desalination in relation to other water sources.

- November 30 through December 4 is ACWA's Fall Conference in San Diego. General Manager Shoenberger will be moderating a panel on Wednesday, December 2 at 2:30 p.m. on desalination.

B. STANDING COMMITTEE REPORTS:

1. Director Atkinson report on the following meeting:
 - a. Engineering and Operations Committee Meeting, 11/12
2. Director Ohlig-Hall attended the following meetings:
 - a. 50th Anniversary ad hoc Committee Meeting, 11/12
 - b. Finance Committee Meeting, 11/19
The Committee reviewed disbursements to Directors and employees as reported on the Accounts Paid Listing" per California Government Code Section 53065.5.
3. President Dewane reported on the following meeting:
 - a. Special Executive Committee Meeting, 11/20

C. DIRECTORS' REPORTS AND COMMENTS:

2. Director Atkinson reported on the following meeting:
 - a. Grant Funding Meetings, 11/17 – 11/19, 2009
 - b. Other
3. Director Ohlig-Hall attended the following meetings:
 - a. MWDOC Public Affairs and Legislative Committee Meeting, 11/16
 - b. Neil Callahan Workshop, 11/17
 - c. MWDOC Meeting, 11/18
 - b. Other
4. Director Fislser reported on the following meetings:
 - a. Neil Callahan Workshop, 11/17
 - b. Behind the Scenes Briefing and Tour, 11/19
 - c. Other
5. Director Bockmiller reported on the following meetings:
 - a. OCWD Meeting, 11/18
 - b. Neil Callahan Workshop, 11/17
 - c. Other
6. President Dewane reported on the following meeting:
 - a. Grant Funding Meetings, 11/17 – 11/19, 2009
 - b. Other
 - c.

