

**MINUTES OF A REGULAR MEETING
OF THE BOARD OF COMMISSIONERS
OF THE
VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
July 18, 2008**

CALL TO ORDER: Chair Bob Sagona called the meeting to order at 7:45 a.m. in Room 146 at the Victor Valley Wastewater Reclamation Authority Administrative Offices, 15776 Main Street, Hesperia, California, with the following members present:

**TOWN OF APPLE VALLEY
HESPERIA WATER DISTRICT
CITY OF VICTORVILLE
ORO GRANDE (CSA 42) AND
SPRING VALLEY LAKE (CSA 64)**

**Bob Sagona
Rita Vogler
Rudy Cabriaes
Brad Mitzelfelt/Tom Sutton**

VVWRA Staff and Legal Counsel:

**Logan Olds, General Manager
Piero Dallarda, Legal Counsel (BB&K)
Chris Anthony, Project Construction Manager
Gilbert Perez, Director of Operations
Tacey Barclay, Account Tech III
Marce Delaney, Env. Compliance Supervisor
Courtney Pascoe, Database Technician**

**Patricia Johnson, Secretary to the GM/Board
Angela Valles, Director of Human Resources
Kellie Patterson, Account Tech III
Robert Coromina, Network Supervisor
Kristi Scott, Administrative Aide
Linda Ellsworth, Mgmt Tech to GM
Anny Wu, Account Tech III**

Others Present:

**Blake Anderson, Blake Anderson Consulting
Joe Flores, City of Victorville
Mike Podegracz, City of Hesperia
Bill Pattison, Town of Apple Valley
Mr. & Mrs. Dick Fortyune, MWA**

**Brian Johnson, City of Hesperia
Dennis Cron, Town of Apple Valley
John Leveillee, City of Hesperia
Jim Cervantes, Stone & Youngberg**

CALL TO ORDER & PLEDGE OF ALLEGIANCE

Chair Sagona called the meeting to order at 7:45 a.m. and called upon Gilbert Perez to lead the Pledge of Allegiance.

PUBLIC COMMENTS – CLOSED SESSION AGENDA

Chair Sagona asked if there were any comments from the public regarding any item on the Closed Session agenda. Hearing no comments, Chair Sagona called for a motion to enter into Closed Session.

CLOSED SESSION

Commissioner Vogler made a motion to enter into Closed Session at 7:45 a.m., which was seconded by Commissioner Mitzelfelt and approved by unanimous voice vote.

REGULAR SESSION

Chair Sagona called the Regular Meeting to order at 9:09 a.m. and announced that there were no items to report from Closed Session.

PUBLIC COMMENTS – REGULAR SESSION AGENDA

Chair Sagona asked if there were any other comments from the public on the Regular Session agenda. There were no comments from the public.

ANNOUNCEMENTS AND CORRESPONDENCE:

4. Possible conflict of interest issues

Manager Olds reported that he was not aware of any conflicts.

5. Western Municipal Water District Rates and Charges

Manager Olds reported that VVWRA is currently looking at its rate and fee structure. This announcement is regarding the Western Municipal Water District (WMWD), which is one of our closest neighbors, to show what they are facing and what they are considering doing with their rates. On July 1, 2008 VVWRA rates increased to about \$11 per EDU plus what the member entities add in addition to that. Commissioner Roberts said the Strategic Advisory Committee received rate structures from other comparable agencies. He said it would be helpful if the Connection fee was included in addition to the User fee. Sometimes a rate structure does not include other areas of revenue that may be coming into the agency. In order to do an apples-to-apples comparison, you need to know everything that is included in the revenue stream such as property tax and assessment fees and if Capital expansions and Repair and Replacements are included. Commissioner Roberts said in addition to the User fee, he would like to see all other revenue stream coming into the WMWD. Manager Olds said he would provide that information.

CONSENT CALENDAR:

6. Resolution 2008-14: Amend List of Surplus Equipment

7. **Resolution 2008-15: Adopt Policy for Investment of Funds for FY2008-2009**
8. **Approve the June 2008 Cash Disbursements (No. 0608)**
9. **Approve the minutes of the special meeting held on June 13 and the regular meeting held on June 20, 2008**
10. **Recommendation to Change August 15, 2008 Regular Board Meeting Date**

Manager Olds reported that a discussion was previously held today regarding item 10. During this discussion there was a preference for changing the date of the August 15 Regular Board meeting to Thursday, August 21 instead of Friday, August 22 if the Commissioners are agreeable to amending the consent calendar to reflect the August 21 meeting date.

11. Recommendation for Funding for WERF Nitrogen Emissions from Activated Sludge Processes Study

Chair Sagona called for a motion to approve the consent calendar as amended for item 10.

Commissioner Vogler made a motion to approve the consent calendar as amended, which was seconded by Commissioner Sutton and approved by unanimous voice vote.

REPORTS OR PRESENTATIONS:

12. Budget Review: FY 2008-2009: Manager Olds announced that the budget review to be provided was focused on the Board's request to review the operational expenses of the organization. The slide presentation is based on the non-pictured pages of the FY 2008-2009 budget that was adopted in June.

Manager Olds provided a review of each major budget category. He explained that in 2006 there were a lot of problems with the facility and money had to be spent to correct them. He said we looked at what could be pushed off without compromising the facility and were able to reduce costs by \$700,000. The Capital budget in the FY 2008-2009 budget has been revised several more times since this budget was prepared and the changes will be reviewed with the Commissioners. Manager Olds reported that a benchmarking analysis for performance efficiency was recently completed that showed VVWRA exceeded the highest quartile for efficiency.

Commissioner Roberts said he understands that fiscal year 2008-2009 will begin with a deficit. The forecast for connection fee revenues is based on the current connection fee of \$3,215. In order to receive a revenue stream of \$8 million with that rate, you would need to be using 2,500 EDU for connection fees being received. That seems to be higher than the forecasts he has seen in past presentations. Manager Olds said with the slowdown in growth it was incredibly difficult to forecast this. The only thing that saved this agency is the fact that when residential growth decreased the commercial growth increased. The \$8 million number is not reflective of housing. He used the previous nine months to anticipate and project what would happen and it is more reflective of averaging what

was actually received in the past. Commissioner Roberts said he would like to receive a breakdown on the projections for revenue. The Operating revenue forecast is based on the current User fee of \$11.81 for the entire year. He asked if that revenue stream and the Connection fee revenue stream numbers meet the new modified cash requirement from the State for the State Revolving Fund (SRF) loans or if it is below the requirement and what the current requirement is for cash for the SRF loans. Manager Olds said User fees are now pledged for the SRF. We pledge our net revenues, but do not have to set money aside. Piero said we liberated the \$12 million that was set aside for repayment of the SRF loans. Piero said we went to the State Board and obtained a libertization of the \$12.5 million that was previously set aside to ensure that the loans could be repaid. That Resolution was approved by the Board in June. Commissioner Roberts asked if we are required to set aside any cash at all. Piero said the answer is no, although you do have a pledge of your net revenues. Commissioner Roberts asked if it was correct that the adoption of this budget does not include a User fee increase and if the budget can go forward without a fee increase. Piero said there is a structural deficit that VVWRA has in terms of previous loans from the User fee fund.

Commissioner Roberts asked if the Authority were to enter into the financing agreements and obligate itself, but a member entity is not able to achieve consent would that entity be relieved of its obligation or would that entity be required to use some other funding source. Piero said from a legal standpoint a hypothetical could occur. As these charges are levied there is a Nexus Study prepared that should withstand any challenge from the public. If a challenge was successful, the end result would be that the member entity would have to cover that default somehow through another avenue such as a General Fund or separate Sewer Fund. Piero said there is a potential for that problem, but if everything is done right with the Nexus Study in terms of engineering studies to justify why the increase is necessary and to explain the proportional benefit to the taxpayer in terms of service provided, a challenge is possible but not likely to be successful.

Mike Podegracz said isn't it correct that Prop 218 contains language under Health and Safety to allow for bond issues. Piero said Prop 218 does allow for that. He did not want to get to that extreme point, but there is that final issue where you would be overriding your taxpayers. If the process is followed properly in terms of how the fee increases are justified, the likelihood of a successful legal challenge is very small. Mike Podegracz said if this is a borrowing against the Operating fund isn't there a liability identified in the Operations side to pay it back? Piero said the SRF loan repayment is a covenant and if you do not comply with that covenant you are in breach and default of your debt obligations.

Commissioner Roberts said he has heard that there is not an ability to legally bind future City Councils to take an action that requires them to go through a public process. Piero said that is a very good point that has been raised before. The City Councils are not bound. What they are binding themselves to go through the public process that would enact the fee. Hopefully as the Council goes through that process they will not encounter any problems. Obviously, you cannot force the City Council to do anything illegal. To the extent that the City Councils are following the proper process, there should not be a problem. They are not binding themselves to the fee they are binding themselves to go through the process that enacts the fee. Commissioner Roberts said if the fee is not approved or there is a legal challenge that prevents that entity from enacting that User fee increase, the Service Agreement is still going to bind that entity to make payment to VVWRA. Piero said that would be a potential problem to look at. Chair Sagona said does that really mean that each member entity has an inherent obligation

regardless of whether or not they are successful against a legal challenge against the fee increase. Piero said the member agencies would be obligating themselves to do what is necessary in terms of the new fee structure in the event of an increase in the cost of treatment, production, or Capital improvements in order to meet that need. To the extent that the Board makes a decision that a Capital Improvement is needed and determines the cost to do that improvement, the member agencies are obligated to cover the cost of making those improvements or for increases in User fees that are necessary because of Regulatory changes. This is part of what you agree to do when you enter into a Service Agreement. Commissioner Sutton said that is true of any long-term financing. Piero said it is no different for anyone else.

Piero said the fact that this is a Joint Powers Authority as opposed to a being a separate water district requires an extra step when it comes to the member entities, which is what Commissioner Roberts was alluding to. When you are a JPA, you do have those extra obligations because you are together by Agreement. Commissioner Roberts said it seems you could accomplish the necessary guarantees on the revenue stream that the financing institutions need rather than binding yourself to future fee increases if you went ahead and had higher rate increases based upon that. If the entire rate increase is done up front, then you have protected yourself against the future unknowns. Piero said that would be the ideal position to be in and would be the perfect way of doing it. However, he suspects that the number a single fee increase would require would be a scary number for a lot of people. Commissioner Roberts said the number would be the same either way -- it is just a case of whether you know what that number is. Piero said as you give yourself more time, the numbers may change in a positive way and may not be as high as expected. The recession might end and the slowdown could turnaround. With implemental increases, you are giving yourself more time so that hopefully the numbers will not be as scary. Commissioner Roberts said a question that has been raised is the legal capability to opt for mandatory multiple year rate increases. Piero said to the extent that the Nexus Study has justified the rate increases within a designated number of years, you can do that. You have to do your math very carefully and the engineering report has to be very good in terms of predicting what is going to be happening over those years. When you establish incremental increases, sometimes as you go along the engineering changes with new technologies that are developed or new sources of revenue take place. That is why most agencies opt not to obligate anyone with a big chunk up front in the hope that that a positive change will occur. If you are in the midst of a slowdown, the slowdown could end. Commissioner Roberts asked if it would require some type of adjustment to this budget if a User fee increase is not approved. Piero and Manager Olds said, "Yes, it would".

13. Designation of Reserve Funds: Manager Olds said we have freed up over \$12 million that had been set aside for the SRF loans, so what do we do with that resource? He introduced Jim Cervantes, Managing Director of Stone & Youngberg. Jim reviewed the memorandum from Stone & Youngberg that was provided in the agenda package. He said as money was spent for the Capital Improvement Projects (CIP), the need for flexibility and to free up cash was necessary. This agency has a policy to reserve 20 percent of the operating budget, which is now in a deficit. Agencies usually do this and some agencies have even higher reserve percentages.

Jim said it was the finance team's recommendation that once the State released the commitment for the SRF funds, that money would be placed into a reserve fund. He said it is standard for wastewater agencies to use money that is borrowed from the Capital fund for emergencies. Things happen in

California that cannot be planned like as emergencies and disasters and FEMA is slow to act. The last piece of this is a rate stabilization fund that is used by many agencies. Some money is set aside to pay the bond in case of a revenue drop. This fund would give the agency time to raise rates if necessary. Jim said when the Authority does a borrowing we propose a pledge of connection and user fees to pay the debt. That is appropriate because the bond market will want to have some type of backstop. Every wastewater agency in the state makes a pledge to raise rates. If fees drop below a certain threshold, a rate stabilization fund will serve as a buffer for the agency's use until an adjustment in fees is made. There is a structural deficit in the Operating Fund and the Strategic Advisory Committee and External Finance Committee have discussed a 40 percent fee increase. Jim said the policy presented for the reserve fund will show that money is being set aside in all credible areas. The borrowed funds need to be paid back at some point, but it will get the agency through. Commissioner Sutton said this underwrites debt service. Jim said the agency has not had a break even situation for some time. The Operating fund needs to be better than breakeven and have enough money to start repaying the Capital Fund that has been subsidizing operations. Chair Sagona said this is pointing to a User Fee increase pure and simple. Jim said at least it is all the same money, but it is tied into the payment mechanism to show that funds are available to the bond holders to give them greater comfort. There is money that operations has borrowed from Capital and we need to try to show over a period of time that operations will be able to repay Capital in time through rate increases.

14. Update on Revisions to Capital Improvement Plan: Manager Olds reported that the document provided in the agenda package is no longer correct because some additional changes were made on July 16, as a result of discussions during the SAC meeting held on July 7 and a revised CIP document has been provided in each Commissioner's handout folder. Every time there is a significant change in the CIP, a new number is issued. Page 1 of the handout document is marked Version 3, but it is actually Version 3a. Manager Olds said the document is divided into water reclamation plants, reclaimed water projects, interceptor projects, and Repair & Replacement (R & R) projects.

Manager Olds provided a review of the significant revisions that were made to the CIP as a result of the July 7 SAC meeting. He said the timing of certain projects was not certain at that time, so we were able to move monies from the proposed column to the potential column. That way, we do not lose sight of those projects. The projects that have been highlighted in peach are those we are unable to proceed with at this time. He said there was also a discussion on July 7 about the cost for 18 MGD of Conventional Activated Sludge versus 18 MGD of Membrane Bio-Reactors and new Regulatory Compliance infrastructure costs.

Chair Sagona asked Manager Olds to explain the difference between Conventional Activated Sludge (CAS) and Membrane Bio-reactors (MBR). Manager Olds explained that the MBR process requires one-third the footprint of the conventional activated sludge process and provides higher quality final effluent than conventional activated sludge. Commissioner Roberts asked if the de-watering of the sludge requires a belt filter press. Manager Olds said a belt filter press is required. He said that Lahontan does not like the lining that is being used for the drying beds and the cost of installing concrete lining is very high. If we used belt filter presses, it would remove more water, reduce the volume of sludge and speed up the process.

Manager Olds said he appreciates the assistance from member agency staff in helping to develop the CIP ideas. A big change happened on July 7 that brought the costs down. If the CAS option becomes a possibility, we are looking at \$122 million for all projects. We made a lot of progress on July 7 and the next

joint SAC and External Finance Committee meeting is scheduled for July 31. We will make certain that the member agencies are comfortable with the items in this document. Commission Sutton asked Manager Olds to explain the process that was used to develop the CIP. Manager Olds said he went to the member agencies to ask what they wanted and when they wanted it and then we worked backward from that. Each revision has included some project reductions and the fee impact by fiscal year is shown on page 4 of the handout. Chair Sagona said this is based on cumulative reductions. Manager Olds said he hopes to present a value between \$121 and \$122 million to the Board in August. Commissioner Roberts said in order to facilitate the bonds, what are the timing and the magnitude of the required rate increase. Manager Olds said the Financing Team quoted as high as 46 or 48 percent to get us out of the operational deficit. We are now looking at a 21 percent increase in October to get us out of the operating deficit. Based on the need to meet new regulatory requirements, a second rate increase in May or June 2009 will be needed. Manager Olds said he prefers to be conservative, so the same methodology could be used for the second bond issue.

ACTION & DISCUSSION ITEMS:

15. Report from Ad Hoc Strategic Advisory Committee: Blake Anderson reported that he has been acting as a senior advisor to the agency for the past several years. One of his duties is to coordinate the Strategic Advisory Committee (SAC) meetings. The SAC was chartered by the Board to provide recommendations to the Board. The last meeting on July 7 has already been covered today by Manager Olds. The SAC will re-discuss these issues at a joint meeting with the Finance Officers on July 31. We have significantly reduced the CIP over the next few years by being creative on how we can do the most essential projects and downsize the original expectations. In terms of affordability, he would like the Commission to feel confident that if we all do not agree, we have combed through everything we can think of to recommend how the Board should go on this. Chair Sagona said, "We know that we have to go in the direction we have to go, that we share the responsibilities, and that it is our problem". Blake said, "And it will be your money".

16. August 2008 Special Board Meeting: Ribbon-Cutting Ceremony and Facility Tour of Regional Treatment Plant Upgrades: Manager Olds reported that a proposed date and time of August 11, 2008 from 8 to 10 AM have been determined for the Special Board meeting to be held in August for the ribbon-cutting ceremony and tour of the wastewater treatment plant in Victorville. We had a brain-storming session and developed a list of people we would like to invite to the ceremony. Please contact Pat Johnson to provide any additional names that should be included on the invitee list. Manager Olds said Chair Sagona recommended this event during the July Board meeting and this will be the date and time. We are really looking forward to this and are excited about having the opportunity to show you how the plant looks now.

17. Approval of Funding for VVWRA Publicity Materials: Manager Olds recommended that this item be removed from the agenda. It was the consensus of the Commissioners to remove this item.

18. Election of Officers 2008: Chair Sagona announced that officers are changed by automatic rotation on an annual basis. Piero Dallarda reported that Commissioner Cabriales would rotate from Vice Chair to Chair of the Board, Commissioner Mitzelfelt would rotate from Secretary to Vice Chair,

Commissioner Smith would rotate from Treasurer to Secretary, and that Chair Sagona would rotate to the position of Treasurer.

Chair Sagona called for a nomination for Board Chair. Commissioner Sutton nominated Commissioner Cabriales as Board Chair, which was seconded by Commissioner Vogler and approved by unanimous voice vote.

Chair Sagona called for a nomination for Vice Chair. Commissioner Roberts nominated Commissioner Mitzelfelt, which was seconded by Chair Sagona and approved by unanimous voice vote. Chair Sagona announce that due to Commissioner Mitzelfelt's busy schedule, Alternate Commissioner Tom Sutton sits in for him.

Piero advised the Board that one nomination could be made for the Secretary and Treasurer positions. Chair Sagona called for a nomination for Secretary and Treasurer.

Commissioner Vogler nominated Commissioner Smith as Secretary and Commissioner Sagona as Treasurer, which was seconded by Commissioner Sutton and approved by unanimous voice vote.

STAFF/PROFESSIONAL SERVICES REPORTS:

- 19. Construction Management Update: 18 MGD Expansion Project – June 2008:** Accepted as submitted.
- 20. Customer Account Past Due Report – June 2008:** Accepted as submitted.
- 21. Operations and Maintenance Report – June 2008:** Accepted as submitted.
- 22. Pretreatment and Interceptor Cleaning and Inspection Reports – June 2008:** Accepted as submitted.
- 23. Septage Receiving Facility Reports – June 2008:** Accepted as submitted.

AGENDA ITEMS FOR FUTURE MEETINGS:

Report from Ad Hoc Strategic Advisory Committee (Blake Anderson)

Report from External Finance Committee

Semi-annual Revisions to Interceptor Flow Projection Study by RBF Consulting (August 2008)

Resolution to Authorize Interfund Loan (August 2008)

Odor Issues with South Apple Valley Interceptor (August 2008)

Quarterly CIP Update (June/September/December/March)

Recommendation to Issue Request for Proposals (RFP) for Apple Valley Water Reclamation Plant (August/September 2008)

Award Bid for Phase III Primary Clarifier Skimmers and Diffusers for Airbay No. 3 Project (September 2008)

Proposal to Perform Cumulative Impact Assessment for VVWRA Discharges (Sep-Oct 2008)

Resolution to Amend VVWRA Conflict of Interest Code

Interceptor Connection Requirements and Enforcement and Industrial Pretreatment Program

NEXT BOARD MEETING:

August 21, 2008 - Regular Meeting of the Board of Commissioners

COMMISSIONER COMMENTS

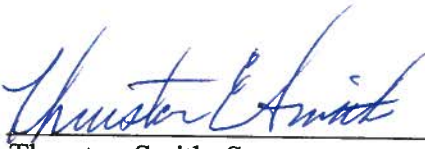
Commissioner Roberts said there was a request for direction to staff to pursue a different weekday for the future Board meetings. Piero said first we need to check and confirm schedules and then we can address this during a Regular meeting. Chair Sagona said let the record show that the Commission is giving direction to staff for a change in dates for future Board meetings.

ADJOURNMENT

At 11:03 p.m., Commissioner Sutton made a motion to adjourn the Regular meeting, which was seconded by Commissioner Roberts and approved by unanimous voice vote.

APPROVAL:

DATE: 8/21/08
Approved by VVWRA Board

BY: 
Thurston Smith, Secretary
VVWRA Board of Commissioners