

**DSRSD • EBMUD RECYCLED WATER AUTHORITY
(DERWA)**

**Board of Directors Regular Meeting Minutes
Monday, October 27, 2008**

Dublin San Ramon Services District
7051 Dublin Boulevard, Dublin, California

1. CALL TO ORDER – Chair Scannell called the DSRSD • EBMUD Recycled Water Authority (DERWA) meeting to order at 6:00 p.m. at the Dublin San Ramon Services District Boardroom.

2. PLEDGE TO THE FLAG

3. ROLL CALL – Directors present: Chair Daniel Scannell, Vice Chair Frank Mellon, Director Katy Foulkes, and Director Richard Halket. DERWA Staff present: James Bewley, Authority Manager; Richard Lou, Treasurer; Robert Maddow, General Counsel; and Nancy Gamble Hatfield, Authority Secretary.

4. SPECIAL ANNOUNCEMENTS/ACTIVITIES

5. PUBLIC COMMENT – 6:02 p.m. – None received.

6. APPROVE MINUTES – Regular Meeting of *April 28, 2008*

Motion by V.C. Mellon, Second by Director Halket to approve the minutes from the April 28, 2008 regular meeting. Motion carried (3-0-1) by the following vote:

AYES: Mellon, Halket, Scannell
NOES: None
ABSTAIN: Foulkes

7. CONSENT CALENDAR

A. Treasurer's Report – April 30, 2008

B. Treasurer's Report – May 31, 2008

C. Treasurer's Report – June 30, 2008

D. Treasurer's Report – July 31, 2008

E. Treasurer's Report – August 31, 2008

F. Treasurer's Report – September 30, 2008

G. Quarterly Investment Report – June 30, 2008

H. Quarterly Investment Report – September 30, 2008

I. Amendment No. 5 to Contract with Bold, Polisner, Maddow, Nelson & Judson –
Adjustment in Hourly Rates

Motion by Director Foulkes, Second by Director Halket, to approve the Consent Calendar and adopt Resolution No. 08-2, approving Amendment No. 5 to the Agreement with Bold, Polisner, Maddow, Nelson & Judson.

Motion carried (4-0) by the following vote:

AYES: Foulkes, Halket, Mellon, Scannell

NOES:

8. BOARD BUSINESS

A. Transmittal of the Independent Auditor's Report and Financial Statements for Years Ending June 30, 2008 and 2007

Treasurer Richard Lou reported that once again Maze & Associates performed the DERWA audit. They did not find any issues with the financial statements and gave DERWA a clean audit. They also produced a "Memorandum on Internal Control and Required Communications" document, which is a recently adopted GASB rule. Maze & Associates did not identify any deficiencies in internal control that they considered to be material weaknesses or significant deficiencies.

Motion by V.C. Mellon, Second by Director Foulkes to accept the Independent Auditor's Report and Financial Statements for Year Ending June 30, 2008 and 2007.

Motion carried (4-0) by the following vote:

AYES: Mellon, Foulkes, Halket, Scannell

NOES:

B. Approve Increase of Authorized Compensation for Public Information Services with Jones & Stokes Associates

Authority Manager Bewley reported that the last Jones & Stokes Associates agreement had provisions for extensions that would require Board approval because of the limit on dollar amounts for agreements approved by the Manager. As of the last DERWA Board meeting on April 28, 2008 a work plan for Jones & Stokes was not yet developed for FY 2008-2009. Mr. Bewley consulted with General Counsel and determined that instead of holding a special meeting, it was prudent to approve a new agreement with Jones & Stokes for their services and authorize Task Order Nos. 1 and No. 2 for the first 6 month period in the new fiscal year in an amount not to exceed \$42,895. That agreement provides that additional services could be authorized by task order; however, expenditures above \$50,000 require Board approval. Mr. Bewley explained that the request under this agenda item is to have Board approval for an additional \$49,425 for the period January 1 through June 30, 2009, bringing the total to \$92,320 for the full fiscal year, which covers all the work under Task Orders Nos. 1, 2, 3 & 4.

Chair Scannell commented that Jones & Stokes have done an excellent job to date on the many projects they've performed for DERWA.

Motion by Director Foulkes, Second by Director Halket to approve total expenditures under the Professional Services Agreement with Jones & Stokes Associates in an amount not-to-exceed \$92,320 for public information services for the period July 1, 2008 through June 20, 2009. (Reference Minute Order No. 2-08).

Motion carried (4-0) by the following vote:

AYES: Foulkes, Halket, Mellon, Scannell

NOES:

C. Authorize Local Share Contribution for EBMUD Phases 2, 3 & 4 Distribution System Project and Increase in Local Share Contribution for Pump Station R200A/Pipeline Segment IH Project

Authority Manager Bewley reported that this agenda item relates to Pump Station R200A/Pipeline Segment IH project and EBMUD Pressure Zone 2 Distribution System. This item is to authorize a local share cash contribution of \$34,000 to begin the work on the next phase of the federally supported project, specifically the EBMUD Distribution System Phase 2 project, and to increase the local share cost contribution for design and construction costs on the PSR200A/Pipeline IH project from \$1,125,000 to \$1,350,000. The 2006 agreement between DERWA and the Department of the Army (US Corps of Engineers) has a cost share arrangement of 75% federal and 25% local funding. Additional contributions are now necessary because of the updated construction contract award amount, increase in supervision costs, inspection, and overhead charges. For the new work EBMUD will perform the design work, and then the Army Corps of Engineers will bid the work for construction late next year.

Motion by Director Foulkes, Second by Director Halket to approve Resolution No. 08-3 and authorize Local Share Contribution for EBMUD Phases 2, 3 & 4 Distribution System Project and Increase in Local Share Contribution for Pump Station R200A/Pipeline Segment IH Project.

Motion carried (4-0) by the following vote:

AYES: Foulkes, Halket, Mellon, Scannell

NOES:

9. BOARD WORKSHOP AND DISCUSSION ON DERWA CAPITAL DEBT PROGRAM

Treasurer Lou gave a presentation on the status of the current DERWA debt program. Due to recent economic conditions, staff thought it was important to give the Board an update. The \$50 million commercial paper program (State Loan Program) for DERWA approved by the Board in December 2003 is quite sound. After that, both DSRSD and EBMUD were repaid \$14 million for their initial capital contributions to DERWA that funded operations prior to previous funding sources. Mr. Lou explained that commercial paper is short term borrowing that is reissued every 270 days or less. The interest rate is not known until it is remarketed. Interest only payments are made on this type of investment. DERWA has a strong credit rating and a letter of credit backing the program.

In July 2005, the DERWA Board approved participation in the State Loan Program in the amount of \$25 million. This debt is considered long term borrowing with a 20 year repayment period and has a fixed low interest rate of 2.5%. This debt was issued by the State Water Resources Control Board (SWRCB) Water Recycling Construction Program. Payments are due once per year in July and include interest and principal. Last year DERWA paid \$1.4 million in interest payments on the \$50 million commercial paper and \$1.6 million on the \$25 million State Loan. Since the State Loan amount includes both principal and interest the payment was high. DSRSD paid \$1.581 million or 52.7% and EBMUD paid \$1.419 million or 47.3%. Those splits were decided upon in the Sales Agreement between the Member Agencies.

Commercial paper is for short term borrowing and usually has a lower interest rate than fixed rate revenue bonds. As the market changes over time, the interest rate will vary.

During the recent financial crisis, the variable rate interest jumped very high. Commercial paper is backed by a letter of credit and the other markets are backed by bond insurance.

Since commercial paper rolls over, or is remarketed frequently, DERWA does experience some associated costs to support this program. The Trustee Wells Fargo handles the financial transactions and charges \$3,000 per year. Citigroup finds buyers for the commercial paper so that it can be remarketed and charges approximately \$20,000 per year. JP Morgan provides a bank letter of credit to ensure that investors are paid and this costs approximately \$100,000 per year. It is scheduled to expire on January 22, 2010.

Mr. Lou then discussed some of the current issues with the commercial paper. He stated that commercial paper interest rates for "good" municipal agencies should be approximately two-thirds of the Federal Funds Rate, which was 1.5% in early October. The rate may likely decrease in the future. Because the financial markets are still settling, an interest rate significantly below 1.5% is unlikely in the future. EBMUD recently issued some commercial paper at approximately 3.5% to 4%. JP Morgan will purchase the commercial paper if remarketing fails. The near term commercial paper rates will likely still be lower than fixed rate municipal debt. Next year when DERWA needs to secure a new letter of credit, it will likely cost significantly more. JP Morgan will likely be the firm to provide this letter of credit.

Other financing opportunities in the future include State and Federal funding. The SWRCB continues to have a grant and low interest loan program. Proposition 84 also set aside \$138 million for Bay Area projects. Additionally, there is about \$7 million remaining of the \$15 million in the current WRDA (Water Resources Development Act) federal authorization. Approximately \$8 million of the WRDA money has been appropriated. State loans require larger annual payments than commercial paper, but DERWA will not have the financial hurdles to issue and maintain the debt. However, DERWA will have to compete for State loans and access to funds is not immediate. If DERWA wants to expand the Commercial Paper program, it will have to obtain a new letter of credit. Going above \$50 million will have to be approved. Even with growing fees, commercial paper continues to be significantly less expensive than issuing fixed rate revenue debt.

Mr. Lou reported that EBMUD has \$2 billion in long term debt and has an AA+ credit rating, which makes issuing revenue bonds easier. DSRSD has \$13 million in long term debt from the WaterReuse Finance Authority, which is variable rate debt. DSRSD continues to fund the DERWA capital contributions from connection fees.

Mr. Lou concluded his presentation noting that the current DERWA capital program is fully funded. EBMUD will fund the local contribution of the Phase 2 project discussed earlier in the evening. Other projects in the adopted CIP Budget have adequate funding. There will be some future upgrades for which funding has not been identified. Those upgrades include the treatment plant expansion and major equipment replacements.

Authority Manager Bewley and Directors discussed the information presented in the workshop by Treasurer Lou.

Mr. Bewley explained that he wanted the Board to be up to date on the fact that DERWA continues to have \$50 million in interest only debt. At some future point the Board will need to decide if it wants to retire or continue the debt. The major equipment

replacements will not be for several years since DERWA is a new system. The treatment plant expansion is the largest capital cost identified in the near term and developing supplemental water wells could require additional capital funding, depending on the scope of the project ultimately selected. Currently, DERWA has no way of storing recycled water during the months from November through March. Instead, all of that water is discharged to the Bay. There are ways to create storage for this water; however they are large scale projects that will be very costly.

Mr. Lou explained that in fall 2009, DERWA will be looking for a new letter of credit. That could be done with JP Morgan or another firm. If the limits need to be increased on that debt and the letter of credit, additional work will likely be needed from bond counsel and financial advisors. Another option would be to request the Member Agencies to fund the new capital or secure additional State loans.

Director Foulkes asked Mr. Bewley to elaborate on the last slide that identified the Recycled Water Treatment Plant expansion.

Mr. Bewley explained that the DERWA program was designed for a peak day flow of approximately 15 million gallons per day. The pump stations, transmission pipelines, and storage reservoirs were built to the 15 mgd capacity. The initial treatment plant was built to 9.7 mgd and was constructed so that modules could be added for future plant expansions to 15 mgd. The RWTF expansion would consist of additional filters and disinfection facilities, which were identified in the original planning.

Director Halket thanked staff for effectively managing the debt. He suggested that staff be open to all financing possibilities in the future and that it may make sense to retire some portion of the debt. He expressed concern with the current affairs of the credit market and commented that short term paper is really troublesome right now.

V.C. Mellon commented that depending on what happens with commercial paper, interest rates remain unsettled. To the extent that commercial paper is a cheaper financing option than issuing bonds, he would rather DERWA continue to work with that, if available.

Treasurer Lou stated that it may be difficult to issue bonds for DERWA in the future because it is not a well known entity. It would be a more unique situation for DERWA to secure bonds than the individual Member Agencies.

V.C. Mellon stated that the Member Agencies may have to back up bonds, if necessary.

Director Halket expressed the position that DERWA needs to have some multiple plans for possible future financial conditions.

Mr. Bewley commented that staff will consider various financing options.

General Counsel Maddow noted that DERWA might want to consider getting its own credit rating.

Directors agreed that instead of waiting too long, staff should look at all financing options available should the credit market continue to deteriorate.

Treasurer Lou noted that EBMUD decided to switch their financial advisors and bond counsel. DERWA may need to consider changing these also.

Chair Scannell commented that it is important to keep on top of this issue and requested that it be a standing item on future agendas.

10. MANAGER'S REPORT

- Contracts Initiated Since the Board Meeting of April 28, 2008:
 - An agreement with Winzler & Kelly was entered into in August for \$6,500. The purpose was to review the DERWA EIR and determine how the EBMUD distribution system expansion and possible DSRSD west Dublin fit into the prior approved EIR. Ms. Valerie Young, who was the primary author of the EIR and who formerly worked for CH2M Hill, is now with Winzler & Kelly and will perform this review.
 - An agreement with Jones & Stokes was entered into in July as discussed earlier on tonight's agenda under Item 8.B.
- Pump Station R200A/Pipeline IH Project Update – The project was awarded shortly after the April 28 Board meeting. This has been a difficult project and the contractor has had some difficulty with subcontractors, and their work with the City of San Ramon has been contentious. The lane closures on Bollinger Canyon Road were scheduled to be completed August 22, 2008 and were actually completed on October 20, 2008. The pipeline work is not complete. The City requires night work in the intersections and will consider allowing weekend work. The design of the shoring system for fiber optics has not been resolved yet. DERWA is working closely with the Corps of Engineers who are serving as the construction managers. Mr. Bewley complimented Jones & Stokes for their public information work in providing timely responses to public complaints and questions.
- Stray Current Mitigation Project Completion – The major portion of the work, installation of the grounding wire and gradient mats, was completed in January 2007. The remaining work to install two isolation spools on the pipeline in Pine Valley Road was done in August 2007 and the project is now complete.
- Confirm Next Meeting Date – February 23, 2009 – The next regular meeting is scheduled for December 22, 2008. Mr. Bewley suggested the Board consider canceling that meeting, and then meet on February 23, 2009, the next regularly scheduled meeting.

Motion by V.C. Mellon, Second by Director Halket to cancel the December 22, 2008 regular DERWA Board meeting and hold the next regular meeting on February 23, 2009.

Motion carried (4-0) by the following vote:

AYES: Mellon, Halket, Foulkes, Scannell

NOES:

11. BOARDMEMBER ITEMS - None.

12. ADJOURNMENT

Chair Scannell adjourned the meeting at 6:59 p.m.

Submitted by,

Nancy Gamble Hatfield
Authority Secretary