



CONTINUED FROM ADJOURNED JOINT MEETING OF THE
FORT ORD REUSE AUTHORITY AND
MARINA COAST WATER DISTRICT
BOARDS OF DIRECTORS FROM JUNE 10, 2011
3:00-3:30 PM, Friday, September 16, 2011
Carpenters Union Hall * 910 2nd Avenue * Marina, CA 93933



MINUTES

1. Call to Order and Roll Call of Both Boards

Chair Potter called the September 16, 2011, Boards of Directors meeting to order at 3:40 p.m.

Fort Ord Reuse Authority Board of Directors:

Voting members present (Quorum present at call to order)

Chair/Supervisor Potter (County of Monterey)
1st Vice Chair/Mayor Edelen (City of Del Rey Oaks)
Mayor Pendergrass (City of Sand City)
Mayor Pro-Tem Kampe (City of Pacific Grove)
Supervisor Parker (County of Monterey)
2nd Vice Chair/Mayor Pro-Tem O'Connell
(City of Marina)

Mayor McCloud (City of Carmel-by-the-Sea)
Mayor Bachofner (City of Seaside)
Councilmember Brown (City of Marina)
Councilmember Selfridge (City of Monterey)
Councilmember Oglesby (City of Seaside)
Jim Cook (County of Monterey)

Arriving after the roll: Mayor Donohue (City of Salinas)

Absent: Supervisor Calcagno (County of Monterey)

Ex-Officio members present:

Kevin Saunders (California State University Monterey Bay ("CSUMB"))
Dr. Doug Garrison (Monterey Peninsula College ("MPC"))
Dan Albert, Jr. (Monterey Peninsula Unified School District)
Mike Gallant (Monterey Salinas Transit)
Debbie Hale (Transportation Agency for Monterey County ("TAMC"))
Bill Collins (Base Realignment and Closure ("BRAC"))

Arriving after the roll: Nicole Charles (27th State Assembly District), COL Joel Clark (United States Army),
Director Kenneth Nishi (Marina Coast Water District ("MCWD"))

Absent: Representation from the 17th Congressional District and the 15th State Senate District. Dr. Margon
(University of California Santa Cruz ("UCSC"))

Marina Coast Water District Board Members Present:

Bill Lee – President
Dan Burns – Vice President
Howard Gustafson - Director
Kenneth Nishi – Director
Jan Shriner - Director

2. **Pledge of Allegiance** - Chair Potter led the Pledge of Allegiance.

3. **Continued New Business**

a. **Ord Community and Marina Water/Wastewater Systems Proposed Budget and Rates for FY 2011-2012:**

- (1) **FORA Board Approval of Resolution Nos. 11-03 and 11-04 Adopting a Compensation Plan and Setting Rates, Fees and Charges for Base-Wide Water, Recycled Water and Sewer Services on the Former Fort Ord**

FORA Assistant Executive Officer Steve Endsley explained that the Boards had directed FORA staff to undertake an audit of the proposed rate increase. He said that after a selection process, Jamie Gomes of consulting firm EPS (Economic & Planning Systems) was selected, particularly because of their strong, long-term background in the area of public finance, and their expertise in analysis of water districts, water rates, etc. Mr. Endsley said that over the last two months, EPS has conducted an extensive study, including interviews with MCWD staff and consultants, FORA staff and consultants, and others, and prepared a report and noted that also in the packet were a FORA staff report, a list of the questions that were gathered from the Joint Boards and the public, along with MCWD's answers. Mr. Gomes made a presentation, stating that he had also presented at the last Administrative Committee meeting, which summarized his findings. He reiterated the history of this rate increase request since the FORA Water/Wastewater Oversight Committee meeting in March, through the call from the Board in July for an independent audit of the proposed increase. He reviewed his audit process, and expressed appreciation to MCWD staff for their in-depth cooperation. Mr. Gomes found that the 4.9% proposed increase is warranted. FORA staff distributed copies of Mr. Gomes' presentation. Additional questions were addressed in his memo dated September 16, 2011, which was also distributed.

In summary, Mr. Gomes stated the 7.8% original rate increase request was part of a programmed five-year rate increase, but at direction of the MCWD Board in March, MCWD reevaluated the Ord Community costs and found \$360,000 in cost savings so that the rate increase request was reduced to 4.9%. He reported that the district is meeting its required debt service ratios, and has adequate general reserve fund balances. Mr. Gomes said that the capital improvement fund reserve fund balances do not meet the district's policies but are improving. He said that in looking at costs, excluding debt service interest, current budgeted revenues will be 103% of current budgeted operating costs and excluding interest, costs went up 3.8%. He stated the costs for water equal the costs that were projected in the 2008 study and with interest included, overall Ord water costs went up 15.6% year over year. He said that in this fiscal year, the district will rely on some reserve funding to meet the debt service costs. Mr. Gomes also reported that on the wastewater side, the revenues are about 50% greater than costs, in large part due to the district's aggressive cost reductions and the district will be able to use any revenue in excess of operating costs to fund capital improvement projects to serve existing customers. He said that costs on the wastewater side went down year over year by 17.5%: engineering, personnel and expenses costs were cut by 27% and outside engineering decreased by about 90%. Mr. Gomes reported that overall costs are about 38% lower than the 2008 expectations, including the interest costs allocable to the wastewater. He said that capital improvement reserve funds are \$300,000, where the district policy is \$1M and all of the capital improvement projects but one in this year's budget are specifically to serve existing ratepayers.

Mr. Gomes reviewed the questions and answers handout, including a question that came up at the July Board meeting regarding how administrative costs are allocated. He said the Ord Community water costs in 2008-2009 were 54% of the district's total costs therefore 54% of total administrative costs in subsequent years are being allocated to Ord water. He stated that department functions are allocated 54% to Ord water and 11% to Ord sewer, but the part of costs that include staff salary and benefits costs are allocated at a lower rate, due to the fact that some of staff time is being spent on the regional project, which will be funded separately, reducing the percentage allocated to Ord water from 54% to 39%, and the percentage allocated to Ord sewer from 11% down to 8%, which helps mitigate rate increases.

He also addressed a question regarding how interest costs for the district's three outstanding loans are being allocated back to the cost centers. The first and largest loan was the 2006 revenue bond, which was used to refinance existing revenue debt, to fund capital improvement projects for each cost center, and also included some funding for the Water Augmentation Project. The primary repayment source pledged is the rates, but since some of the proceeds from the bond were used to fund capital projects for development, the actual repayment source should be capacity charges. The district tracks that very close to determine how much of the debt service should be funded by rates and how much by capacity charges. In 2006, the Joint Board funded about \$42M in projects, but at present, the debt service for new projects exceeds the capacity charges that are coming in, so that user rates are temporarily helping to fund some of the debt service that went to fund new service. When capacity charges come back in, the district can reimburse those rates that are being used for temporary cash flow purposes.

In June of 2010, the district exercised an option to purchase a little over 200 acres of Armstrong Ranch. If the district closed on the before December 31st, it would enable the district to recoup the cost of the purchase in the future. The loan term was ten years, which matched the original promissory note that was taken out for the acquisition. The amount of the loan covered the land acquisition and the financing cost for the purchase. The asset, once paid, is an asset of the district, and can be used for water and/or wastewater projects throughout the district, so the cost of the loan is being allocated among all four cost centers on the proportional basis as above. If the Armstrong Ranch parcel is used in the future for the regional water project, all or a portion of the property would have to be acquired for the regional project. Any proceeds from the sale would be applied to buy down the debt service, or to mitigate future rate increases, so that the proceeds would come back to each cost center.

Mr. Gomes stressed that, out of \$4.8M of Ord Water projects this year, all but about \$1M is for projects that will serve existing ratepayers. He explained that, under the Ord Water Capital Improvement Program, the \$26M Desalination Plant line item cost which had been questioned, covers just for the interconnection between the desalination plant and Ord Water, which specifically benefits Ord Water. The regional water project funding sources will come from grant revenues and loans and other debt instruments, with repayment coming from water sales from the plant, not from existing or future ratepayers. He also dealt with a question about what other options FORA may have for providing water to the Ord Community rather than contracting with MCWD, and explained that MCWD owns all of the Ord Water assets, so that any other provider would have to either acquire those assets or provide services in parallel.

Chair Potter thanked Mr. Gomes for his report. Supervisor Parker asked how the \$26M regional water project pipeline would benefit existing Ord Community ratepayers. Mr. Gomes explained that the pipeline would primarily offer capacity for future users, and referred the question to MCWD Deputy General Manager/District Engineer Carl Niizawa, who answered that the project will provide water interconnection between different districts, and that this capital improvement needs to happen to serve current and future needs.

Supervisor Parker remarked that it seems clear that much of the rate increase has to do with the interest cost due to the new note, and suggested that it would be more equitable to spread the payments out over time, so that current users would not be saddled with an inordinate cost. She would like to see the number in terms of 30-40 years instead of 10 years. Mr. Gomes suggested that a longer period of time would significantly increase the amount of interest paid over time. The note is for land acquisition alone. A note of capital improvements would make sense over a longer period of time, but he could not answer whether the idea would be feasible in this case. Supervisor Parker asked what was meant by the comment regarding possibly selling the Armstrong Ranch property to the regional project, and Mr. Gomes explained that if for example 50 out of the 200 acres were needed, the district would sell those 50 acres to the regional project, and the proceeds from the sale would be used to retire the debt. Supervisor Parker remarked that she was confused, because she had earlier understood that the district would be the owner of the land and of the plant. Sometimes the Armstrong Ranch parcel is referred to as an asset for future water and wastewater projects and charged equally to everybody, sometimes as collateral for loans for capital improvements, now it is just the land acquisition cost and no system improvements, and she was under the impression that the land was just for the regional water project.

She feels that it should not be included in the rates for the existing users, since its intended use changes. Mr. Niizawa stated that the district does not intend to sell.

In answer to a question from 2nd Vice Chair O'Connell regarding whether the reserve fund existed in 2009, Mr. Gomes said that the fund has existed for longer than that, and that the district has been putting a fixed annual amount of \$200,000 for water and \$100,000 for wastewater. It's a part of the budget presented to the Joint Board. In answer to a question, Mr. Gomes stated that his understanding is that the district will be reimbursed for all costs related to the regional project.

2nd Vice Chair O'Connell asked whether the existing users will have to pay the entire the entire cost for facility replacement if the replacement is necessary for a new user, or whether there is any mechanism for the cost to be paid by the new user. Mr. Gomes used an example of replacing an aging 12" water line that needs to be replaced, but replacing it with a 16" water line would take care of the existing situation but also provide redundancy in the system and better fire flows, and stated that yes, the future user would bear a portion of that cost. 2nd Vice Chair O'Connell stated that he has trouble voting for a proposal when the citizens of Marina who are affected by it do not have the right to vote for the members of the Board making the decision, and cannot justify the vote for an increase when the residents do not have a full say.

Mayor McCloud asked when the reimbursement of costs for the regional project will be made. Mr. Gomes said that reimbursement of all of the initial costs for the project would be made when the district secures the financing for the rest of the project. She asked about the \$26M project cost and Mr. Gomes confirmed that that project is not a part of the administration cost pie chart. Mayor McCloud then asked how many acre-feet of water would be coming to the district from the regional water project compared to the cost of the projects. Mr. Gomes answered that he didn't know, that the rate increase that was the scope of his analysis related to operating costs and facility costs, and that the capacity increase would be funded from capacity charges, not from existing ratepayers. Mr. Houlemard explained that the water program is predicated on three different policies that the Board adopted in the 1990's, which assumes that, of the 6600 acre-feet of water rights that were contracted for by the US Army in the early 1990's, FORA will have access to about 75%. He said that the US Army kept about 1729 acre-feet, and that is now down to between 1400 and 1500 acre-feet and current water use on the former Fort Ord is below 25% of the total 6600 acre-feet capacity. Mr. Houlemard said that over time, FORA anticipated using both reclaimed and desalinated water as part of the Base Reuse Plan to serve the estimated 9000 acre-feet need at the limits of replacing the Army's presence on Fort Ord. Mr. Houlemard also noted that much of the work to access the 6600 acre-feet is due to improvements that are being evaluated and the capacity charges to pay for improvements for the future are not included at this time. He said the Army currently uses a significant portion of this water in existing areas, and they pay a part of these capacity charges as well.

Mr. Endsley added that the 6600 represents potable water, 2400 represents the water augmentation program, which was always planned. The 2400 was originally planned to be completely reclaimed, then changed to a hybrid reclaimed/desalination project, which has been through an EIR and the CEQA process. The water augmentation project to provide 2400 additional acre-feet of water will go forward whether there is a regional project or not, since it is part of the Base Reuse Plan and called for in the EIR.

Mr. Oglesby asked how much water from the regional project interconnection pipeline will serve existing users. Mr. Niizawa answered that, in order for the regional project to go forward, 15% of the water produced by the project must be used within the water district, so that the water is returned to the Salinas Valley aquifer. He said the Ord Community will need water in the future for development, and the augmentation is called in the Base Reuse Plan and the EIR. Mr. Oglesby asked how the existing users could be required to pay for a \$26M project when only a very small part of that water would serve them, and if the regional plan is contingent on that, the regional project should pay the cost. How will the rates be adjusted for reimbursement, to pay off loans? Mr. Houlemard explained that the \$26M would be paid by future users, and Mr. Gomes confirmed that the Capital Improvement Program projects would be funded by capacity charges. The rate increase does not factor in that \$26M.

Ms. Selfridge asked whether Mr. Gomes' analysis assumed that the regional project was going through. Mr. Gomes affirmed that his analysis was based on the current budget, which includes capital improvements for the regional project. Ms. Selfridge then asked about consideration for existing ratepayers having a say in what's happening.

2nd Vice Chair O'Connell asked about Ord water including a New Water Fund of \$5.5M, on Table 3 of the EPS report. Mr. Gomes explained that the funding sources for the New Water Fund would be revenue sources for capital, from capacity charges or others. If the district does not receive those funds, they might not go forward with some of those capital projects. The fund does not exist, but represents capacity charges. 2nd Vice Chair O'Connell suggested changing the nomenclature on that fund for clarity.

Jan Shriner asked about the FORA/MCWD rate increase review on page 19 of the original report, table #6, under water sales there is almost \$2M proposed. She asked if these sources could be more carefully defined for more clarity with the Seaside exchanging property to MCWD and the flat rates proposed. Mr. Gomes deferred her question to the district. Mr. Niizawa stated that the District obtained additional land from Seaside adjacent to the D/E reservoir site and, in lieu of paying cash to the City of Seaside, the City is receiving credits from the District on its golf course water bills until the land purchase price is paid off. In response to another question regarding the Armstrong Ranch property, Lloyd Lowrey, Counsel for MCWD, addressed the Board stating that in 1996 MCWD entered into agreement with the Armstrong Family, owners of the Lonestar property, the City of Marina, and the MCWRA. That agreement enabled the Marina area lands a determined amount of water without challenge. He said as part of the agreement, MCWD was planning for the future when there would be a need to augment that amount of extraction from the aquifers. He said that as part of that planning, MCWD was given an option to acquire about 224 acres of land on the Armstrong Ranch for the use of production, storage, treatment and distribution of water. Mr. Lowrey said the regional project is a later add-on to the earlier Regional Urban Water Augmentation Project, which is not for the Peninsula but for the former Fort Ord.

Jan Shriner asked about when development happens, how would reimbursement be made to present Ord Community ratepayers? Could it be considered a temporary rate hike? She mentioned that the memo page 5, a \$21.7M voluntary payment from FORA, and said that Preston Park is under threat of being sold by FORA to pay for a \$19M debt and the residents are concerned about the water increase and the fact that their land will be sold and they would have a new landlord. Is there any reassurance to Preston Park residents? Mr. Gomes stated the voluntary contribution was not paid in 2008 it would be paid in the future through CFD taxes.

Mayor McCloud commented about the regional project moving forward and is there a timeline issue to vote now? Mr. Houlemard said that he didn't believe that the rates were not connected to whether or not the regional project moved ahead. Mr. Endsley reminded the Board that this request is done every year in order to set the rates for operating costs for the coming fiscal year. He said that if the rates are not adopted then there is no budget to operate from and we were already in month two (2) of the fiscal year. Mr. Endsley said that there is urgency to approving the budget to fund the program to move forward. He said that the consultant was recommending moving forward and that the \$27M is a line item for FORA but has not been expended. He reminded the Board that there are several options available to the Board as they deliberate. Mayor McCloud said that it would help if the information was separated out from what needs to happen now and what needs to happen in the future.

LeVonne Stone asked if the community would be compensated because the increases are creating a hardship and the community is not benefitting. She is concerned that the base closed in 1994 and people living here are further disenfranchised because there are no jobs, which makes it harder to pay for utility bills.

Chair Potter stated that two (2) actions were requested the Ord Community and Marina Water/Wastewater Systems Proposed Budgets and Rates for FY 2011-2012. FORA Board Approval of Resolution Nos. 11-03 and 11-04 Adopting a Compensation Plan and Setting Rates, Fees and Charges for Base-Wide Water, Recycled Water and Sewer Services on the Former Fort Ord. Motion made by Mayor Edelen seconded by Mayor McCloud with an amendment to read for fiscal year 2011-12.

Supervisor Parker said that she appreciated the audit process but there are serious questions to reimbursing the present day users who are paying for future users. Other members of the board shared their concerns regarding the process.

The motion passed, with the following no votes:

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|-------------------------|------|
| Mayor Pro-Tem O'Connell | - No |
| Councilmember Brown | - No |
| Supervisor Parker | - No |
| Councilmember Selfridge | - No |

FORA legal counsel Jerry Bowden reminded the Board that it is the same motion and was voted on at the last meeting, and so if this is the second vote, it passes by majority. Chair Potter confirmed the resolutions are approved.

Chair Potter then turned the meeting over to MCWD President Bill Lee who called for the motion from the MCWD Board regarding the Adoption of Resolution Nos. 2011-36 and 2011-37 (Ord Community Budget and Compensation Plan). **The motion passed with the following no votes:**

Director Shriner - No

Supervisor Parker commented about augmenting the staff level that brings the rates forward each year, possibly adding some policymakers to the conversation before it comes before the Board. Chair Potter referred the matter to the Executive Committee. Mr. Houlemard said that it would be timely to consider that in January as an amendment to the Master Resolution, in time for additional members to be added to the Water/Wastewater Oversight Committee. It would be appropriate for the Executive Committee to consider this later in the year. Chair Potter thanked the boards for their participation in the process.

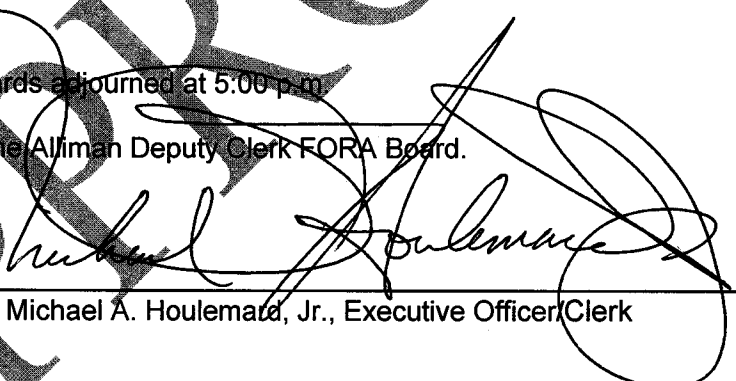
4. Announcements and Correspondence - none

5. Adjournment

The meeting of the joint boards adjourned at 5:00 p.m.

Minutes prepared by Daylene Alliman Deputy Clerk FORA Board.

Approved by _____


Michael A. Houlemard, Jr., Executive Officer/Clerk