

Minutes

Sacramento Suburban Water District
Regular Board Meeting
Monday, May 18, 2009

Call to Order

President Schild called the meeting to order at 6:31 p.m.

Roll Call

Directors Present: Ken Decio, Thomas Fellenz, Frederick Gayle, Stephen Hanson and Neil Schild.
Directors Absent: None.
Staff Present: General Manager Robert Roscoe, Dan Bills, Ed Formosa, Jan Gentry, Dave Jones, Warren Jung, Annette O'Leary, John Valdes, Dan York, Lynne Yost and Legal Counsel Joshua Horowitz.
Public Present: Joel Archer, Pat Cole, Mike Grace, Laura Lavellee, Jeff Nelson, Michael Seaman and Robert Stevens.

Announcements

The following items were announced:

- The SSWD employee injured while responding to an after-hours main break did not have major injuries and requires no further medication attention.
- Directors Decio, Gayle, Hanson and Schild were thanked for participating in the CO Day on May 16th celebrating the grand opening of Freedom Park.
- Information regarding CSDA's call for nominations for seat A was e-mailed to Directors last week.
- General Manager Roscoe will be attending the ACWA conference in Sacramento this week.

Public Comment

None.

Consent Item

1. Minutes of the April 20, 2009 Regular Board Meeting
2. Reimbursement Claim - 5040 Jackson Street, Unit #44
3. Disposing of Surplus District Real Property, Vehicles and Large Equipment and Other Personal Property Policy (PL - Adm 003)
4. Resolution No. 09-10 Authorizing an Application for Funding Assistance Through the Challenge Grant Program

Items 2 and 4 were pulled for discussion.

MSC¹ (Fellenz/Decio) that the Board of Directors approve Consent Items 1 and 3, by unanimous vote.

Regarding Item 2, General Manager Roscoe stated that staff wishes to amend the draft letter in the staff report. The recommendation is still to reject the subject claim, but to have legal counsel draft a more appropriate letter.

MSC (Hanson/Fellenz) that the Board of Directors reject the reimbursement claim for \$8,626.00 submitted by Ms. Lorraine Lewis for damages alleged to be caused by sediment in the District's distribution system that serves the Lamplighter Mobile Home Park (Park), 5040 Jackson Street, where she resides at Unit #44 with an amended letter by legal counsel, by unanimous vote.

Regarding Item 4, General Manager Roscoe stated that this grant requires matching funds from the District. What the District is currently spending counts for the matching funds. This grant will not substitute their money for District money. The grant money will be in addition to District funds. El Dorado Irrigation District is now included in the grant. Of the \$5 million grant application, SSWD would anticipate roughly \$1.1 million in grant money if the application is successful.

MSC (Fellenz/Gayle) that the Board of Directors approve Resolution No. 09-10 Authorizing an Application for Funding Assistance Through the Challenge Grant Program, by unanimous vote.

Arden-Arcade Cityhood Efforts Update

Item 22 was discussed after the Consent Items. A written report was provided and reviewed by General Manager.

Director Hanson stated he is in support of the right to vote, oppose annexation by the City of Sacramento and in favor of Arden-Arcade incorporation.

Laura Lavellee, Arden-Arcade Incorporation Committee, spoke in favor of cityhood and incorporation of Arden-Arcade.

Mike Grace worked for Fulton-El Camino Parks District and is in favor of the incorporation of Arden-Arcade.

Joel Archer, Arden-Arcade Incorporation Committee Chair, spoke in favor of the Arden-Arcade incorporation, asked the Board to oppose the annexation by the City of Sacramento and support the right to vote.

Robert Stevens is a retired law enforcement officer who spoke in favor of Arden-Arcade cityhood.

Pat Cole is in favor of Arden-Arcade cityhood.

¹Motion, Second, Carried.

Director Hanson stated that his division (Division 4) has a large portion in the proposed annexation area. He believes the District should support of the right to vote, and sign the petition oppose the annexation study.

General Manager Roscoe stated that the annexation study is scheduled for the LAFCo meeting on June 3, 2009. He stated that a letter could be written to LAFCo opposing the study and then a resolution supporting the right to vote could be brought before the Board at the June regular meeting.

The consensus of the Board is to have staff prepare a resolution on the right to vote for Board consideration at the regular June Board meeting.

MSC (Hanson/Gayle) that the Board of Directors direct staff to draft a letter to LAFCo in support of removing the annexation study from the LAFCo budget, by unanimous vote.

Items for Discussion and Action

5. **Resolution No. 09-08 Authorizing the Execution and Delivery of Not To Exceed \$48,000,000 Adjustable Rate Refunding Revenue Certificates of Participation and Approving the Execution and Delivery of Certain Documents in Connection Therewith and Certain Other Matters**

Dan Bills presented the staff report. The District has four existing revenue bonds outstanding. The Series 2004 Certificates of Participation (COPs), which were issued in December 2004 (and amended in May 2008) for purposes of funding new capital projects. The 2008A COPs were split into two pieces, a Series A-1 and a Series A-2, which were issued in May 2008 for purposes of refinancing the 2005A COPs. The proceeds of the 2005A and B COPS were used to advance refund pre-merger existing debt. A floating-to-fixed rate SWAP Agreement was entered into simultaneous with the issuance of the 2005A COPs. The Series 2005B COPs are fixed-rate debt, which were issued in April 2005 and expire in November 2011, and are not subject to prepayment.

In May 2008, the District Board directed staff to convert the Series 2004 COPs from an auction rate mode (Auction Rate Securities, or ARS) to variable interest rate instruments called Variable Rate Demand Obligations, or VRDOs. The conversion to VRDOs was necessary due to the instability and turmoil in the ARS market that drove interest rates to unacceptably high levels. The Series 2004 was converted to a VRDO by adding a Line-of-Credit from Dexia Bank Local (Dexia) and retaining the existing insurer - Financial Security Assurance, Inc, (FSA).

Due to the current credit worthiness of FSA and Dexia the Series 2004 VRDOs are again trading at interest rates of unacceptably high levels. In March 2009, the District Board directed staff to replace the Line-of-Credit with Dexia and insurance with FSA on the Series 2004 VRDOs with a Letter-of Credit (LOC) from Sumitomo Mitsui Banking Corporation (SMBC). The Series 2008 A-1 COPs are being refinanced by the District in related proceedings. The Series 2008 A-2 COPs are not being refinanced. The SWAP Agreement will remain in place. The proposed resolution

would execute the documents and take all necessary actions to substitute a LOC with SMBC on the Series 2004 COPs.

Mr. Bills distributed and reviewed a handout on SSWD's debt history. He introduced Doug Brown, bond counsel from Stradling Yocca Carlson & Rauth.

Mr. Brown gave a presentation and discussion included:

- All the agreements associated with this transaction: installment purchase, trust, escrow, purchase contracts, official statements, remarketing and credit facility.
- The General Manager is authorized to the not to exceed amount of \$48,000,000 for this transaction.

There was no public comment.

MSC (Gayle/Decio) that the Board of Directors adopt Resolution No. 09-08 Authorizing the Execution and Delivery of Not To Exceed \$48,000,000 Adjustable Rate Refunding Revenue Certificates of Participation and Approving the Execution and Delivery of Certain Documents in Connection Therewith and Certain Other Matters, by unanimous vote.

6. **Resolution No. 09-09 Authorizing the Execution and Delivery of Not To Exceed \$41,000,000 Fixed Rate Refunding Revenue Certificates of Participation and Approving the Execution and Delivery of Certain Documents in Connection Therewith and Certain Other Matters**

The District has four existing revenue bonds outstanding: The Series 2004 Certificates of Participation (COPs), which were issued in December 2004 (and amended in May 2008) for purposes of funding new capital projects. The 2008A COPs were split into two pieces, a Series A-1 and a Series A-2, which were issued in May 2008 for purposes of refinancing the 2005A COPs. The proceeds of the 2005A and B COPS were used to advance refund pre-merger existing debt. A floating-to-fixed rate SWAP Agreement was entered into simultaneous with the issuance of the 2005A COPs. The Series 2005B COPs are fixed-rate debt, which were issued in April 2005 and expire in November 2011, and are not subject to prepayment.

In May 2008, the District Board directed staff to convert the Series 2005A COPs from an auction rate mode (Auction Rate Securities, or ARS) to variable interest rate instruments called Variable Rate Demand Obligations, or VRDOs. The conversion to VRDOs was necessary due to the instability and turmoil in the ARS market that drove interest rates to unacceptably high levels. The Series 2005A was converted to VRDOs with Letters-of-Credit (LOC) from Dexia Bank Local (Dexia) and Allied-Irish, p.l.c, respectively, becoming Series 2008A-1 and A-2.

Due to the current credit worthiness of Dexia the Series 2008A-1 VRDOs are again trading at interest rates of unacceptably high levels. In March 2009, the District Board directed staff to refund the LOC with Dexia on the Series 2008A-1 with a fixed-rate, long-term bond to reduce the District's variable rate debt exposure and give the District greater cost certainty. The Series 2004 COPs are being refinanced by the

District in related proceedings. The Series 2008-2 COPs are not being refinanced. The SWAP Agreement will remain in place. The proposed resolution would execute the documents and take all necessary actions to refund the Series 2008A-1 COPs into a fixed-rate, long-term bond.

Mr. Brown discussed the documents presented in the resolution for Board consideration. The proposed changes are for risk management and not to save money.

There was no public comment.

MSC (Hanson/Fellenz) that the Board of Directors adopt Resolution No. 09-09 Authorizing the Execution and Delivery of Not To Exceed \$41,000,000 Fixed Rate Refunding Revenue Certificates of Participation and Approving the Execution and Delivery of Certain Documents in Connection Therewith and Certain Other Matters, by unanimous vote.

Adjournment to Sacramento Suburban Financing Corporation Meeting

At 7:39 p.m., the Board adjourned its regular meeting to conduct a special meeting of the Sacramento Suburban Financing Corporation for the purpose of reviewing and acting on certain documents related to refinancing of the District's debt. When the Financing Corporation meeting adjourned, the Board resumed its regular meeting at 7:44 p.m. and addressed the remaining items on the agenda.

7. **Sacramento Suburban Water District Strategic Plan (PL - BOD 001)**
General Manager Roscoe presented the staff report. At the March 30, 2009 Special Board Planning Workshop, the Board discussed the District's Strategic Plan (PL - BOD 001). The Board directed staff to include the following in the plan:
 - Include "water conservation" in the Water Supply principles.
 - Replace "high quality" with "superior" in the Customer Service goal.
 - Include "water conservation" in the Customer Service principles.
 - Include statewide and national in the Leadership goal and principles.
 - Staff suggested changes to the finance section.

There was no public comment.

MSC (Fellenz/Gayle) that the Board of Directors approve the revisions to the Sacramento Suburban Water District's Strategic Plan (PL - BOD 001), by unanimous vote.

8. **Use of District Letterhead**
General Manager Roscoe presented the staff report. At the April 20, 2009 regular Board meeting, staff was directed to bring back at the May meeting for discussion the topic of the use of District letterhead. Staff gathered information and, as available, policies on the use of official letterhead. The Association of California Water Agencies (ACWA) was contacted but was not able to provide any information.

California Special District Association (CSDA) was contacted and was not able to find a sample policy from a special district. However, CSDA staff did provide the City of Sunnyvale and County of Marin information which were included in the staff report. The California Association of Public Information Officials (CAPIO) list serve was engaged and several municipalities responded.

Discussion ensued and included:

- Separate letterhead for directors would be an option rather than using the current District letterhead.
- Letterhead use should comply with FPCC rules.
- Should a policy on letterhead use be developed?
- Legal counsel's time and the cost borne by ratepayers for directors' letterhead use.
- No advocacy positions, electioneering or advertising would be allowed.
- What is the perception of the letter by the intended receiver? The receiving agency may receive four different opinions besides the full Board's position and this could cause confusion.

There was no public comment.

MSC (Hanson/Decio) that the Board of Directors direct staff to draft a policy for letterhead and business cards for the Board's consideration, by 3/2/0 vote (Fellenz and Schild opposed).

9. **CSDA Proposed Bylaws Amendments**

General Manager Roscoe presented the staff report. The District received a ballot regarding the proposed CSDA bylaws amendments. The last amendment occurred in 2004. The deadline for completed ballots to be received is July 31, 2009. The results of the ballot will be announced at the CSDA annual conference to be held in Indian Wells (Palm Springs area) in September. If approved, the updated bylaws would take effect on October 1, 2009. There was a brief discussion.

There was no public comment.

MSC (Hanson/Decio) that the Board of Directors authorized the General Manager to cast a vote in favor of approving the California Special Districts Association proposed bylaws amendment, by unanimous vote.

10. **Engagement of Independent Auditor Policy (PL - Fin 001)**

Mr. Bills presented the staff report and reviewed the proposed changes. The Engagement of Auditor Policy (PL - Fin 001) was last updated in March 2007. Proposed revisions to the policy included:

- A change to the purpose of the policy which states that risks inherent in the District control procedures and financial statement disclosures are determined by the auditor in charge of the engagement, which, in turn, designates the testing to be performed.

- A correction and an update to the definition of Audit Services to state that the audit is performed under the auspices of Government Auditing Standards and not Generally Accepted Auditing Standards (GAAS) and to add to the audit engagement attest services, audits of compliance with requirements of contracts, agreements or grants.

There was no public comment.

MSC (Fellenz/Decio) that the Board of Directors approve the revised Engagement of Independent Auditor Policy (PL - Fin 001), by unanimous vote.

Information Items

Treasurer's Report

11. Financial Markets Update

Mr. Bills presented the staff report. He stated the market has been about the same for the last couple of months.

12. Refinancing District Debt Status

Mr. Bills reviewed the refunding timeline. All due dates and tasks are currently on schedule. The District will soon receive the rating back from the credit rating agencies. Moody's called today and they are reviewing the District now. SSWD is tied with the central valley and the California economic concerns. If the credit rating goes down that will raise the fixed rates for the District.

13. Financial Report

Mr. Bills reviewed the balance sheet and income statement.

- a. *Financial Statements – March, February and January 2009*
A written draft report was provided and was noted.
- b. *Investments Outstanding – April 30, 2009*
A written report was provided.
- c. *Cash Expenditures – April 2009*
A written report was provided.
- d. *Credit Card Expenditures – April 2009*
A written report was provided.
- e. *Directors Compensation and Expense Accounting – through April 2009*
A written report was provided.
- f. *Investment Portfolios Yield Compared to LAIF Yield – through April 2009*
A written report was provided.

- g. *Hedging Report – Yield to Rates – December 2004 through April 2009*
A written report was provided.
- h. *Market Report Yields – September 2005 through March 2009*
A written report was provided.

General Manager’s Report

14. District Activity Reports

- a. *Water Operations and Exception Report*
A written report was provided. Production is at the five year average. The District is taking water from the City of Sacramento.
- b. *Customer Service Report*
A written report was provided.
- c. *Regional Water Efficiency Program Report*
A written report was provided.
- d. *Human Resources Report*
A written report was provided.
- e. *Community Outreach Report*
A written report was provided. There are numerous community outreach items in this report.

15. Antelope Garden Update

A written report was provided. The garden is now open Monday through Friday and the second Saturday of the month from 9:00 a.m. to 3:00 p.m. There is more signage in the garden.

16. Whitney Elementary School Water Outage

A written report was provided and reviewed by General Manager Roscoe. This was a significant leak. It caused the closure of two classrooms. Water was restored by 2:00 p.m. that day.

17. Costs to Add Fluoridation Facilities in the North Service Area

A written report was provided and reviewed by General Manager Roscoe. A draft report was received, is being reviewed by staff and comments will be forwarded to San Juan Water District. There would be 37 wells fluoridated in the north service area.

18. Regional Water Authority Policy Principles on Water Conservation and Water Efficiency

A written report was provided. The principles were unanimously approved by the RWA membership.

19. **Water Forum Agreement Water Purveyor Specific Agreement**
A written report was provided and briefly reviewed by General Manager Roscoe. Staff anticipates that the water conservation element will be before the Board at the June meeting. The Water Forum approved the new conservation element last Thursday.
20. **Drought Water Bank Update**
A written report was provided and briefly reviewed by General Manager Roscoe. Paperwork was filed today with the State Water Control Board. SSWD was named in a lawsuit filed by a Butte County environmental group. The State is used to dealing with agriculture rather than M&I transfers. The 12% loss factor will probably stay in.
21. **Sacramento Metro Chamber Cap-to-Cap Event**
A written report was provided and briefly reviewed by General Manager Roscoe. Position papers are available if Directors would like the details.
22. **Arden-Arcade Cityhood Efforts Update**
This item was moved to directly before Item 5.
23. **Legislative Update**
A written legislative report was provided and briefly reviewed. With respect to AB 49, staff's recommended District position is now oppose unless amended as currently this bill does not align with RWA's Policy Principles on Water Conservation and Water Efficiency.
24. **Miscellaneous District Issues – General Manger's Report**
A written report was provided. The General Manager noted the following:
 - The Marconi Avenue office remodeling final inspection is this week.
 - The water master plan update is anticipated to be before the Board at the July regular meeting. The Facilities and Operations Committee will be seeing it soon.
 - The master services contract for water main design will keep the District ahead on projects.
 - Poker Lane Well recent samples came back negative for NDMA. Staff will still watch the well closely.

General Counsel's Report

A closed session is not needed.

Committee Reports

25.
 - a. *Facilities and Operations Committee*
No written report.
 - b. *Finance and Audit Committee*
A written report from the April 15, 2009 meeting was provided.
 - c. *Ad Hoc Conjunctive Use Planning Committee*
No report.

- d. *Ad Hoc CalPERS Committee*
No report.
- e. *Ad Hoc Water Master Plan Committee*
No report.
- f. *General Manager Performance Review Committee*
No report.

Director's Reports (Per AB 1234, Directors will report on their meeting activities)

- 26. a. *Regional Water Authority*
An agenda from the May 14, 2009 meeting was provided. Director Fellenz attended the meeting and provided an oral report.

Regional Water Authority Executive Committee

An agenda from the April 22, 2009 meeting was provided. Director Schild attended the meeting and provided an oral report.

- b. *Sacramento Groundwater Authority*
No report.
- c. *Water Forum Successor Effort*
An agenda from the May 14, 2009 meeting was provided. An agenda from the May 13, 1009 Water Caucus meeting was provided.
- d. *San Juan Water District Executive Committee*
An agenda from the April 28, 2009 meeting was provided.
- e. *Sacramento River Water Reliability Study*
No report.
- f. *Other Reports*
Directors Decio, Gayle, Hanson and Schild reported on the May 16th CO Day.

Director Hanson noted the letter in the packet from Sunrise Recreation & Park District that complimented Vicki Sprague and the conservation staff. Kudos to Dan York and his staff for his quick response on the Whitney School water leak. He thinks the water smart patrol signage on the vehicles is good.

Miscellaneous Correspondence and General Information

- 27. Certain correspondence received by the District was provided.
- 28. General information related to District business was provided.

Director's Comments/Staff Statements and Requests

No report.

Closed Session

None.

Adjournment

President Schild adjourned the meeting at 8:57 p.m.

Robert S. Roscoe
General Manager/Secretary