

Minutes of the Casitas Municipal Water District
Board of Directors Regular Meeting Held
July 13, 2005

A regular meeting of the Board of Directors was held July 13, 2005 at Casitas' Office, Oak View, California. Directors Hicks, Kaiser, Bennett, Baggerly and Word were present. Also present were General Manager, John Johnson; Rebekah Vieira, Clerk of the Board; and Attorney, Rob Sawyer. There were four staff members and one member of the public in attendance. President Hicks led the group in the flag salute.

1. Public comments.
2. Board of Director comments.

Director Word reported that there is a meeting on Wednesday, the 14th and Thursday afternoon on the 15th regarding solar power and desalination. It will be in Laguna Beach and I wonder if staff might benefit from participating in those meetings, region 8, 9, and 10 sponsored programs. Mr. Johnson said we will have to see if we can get anyone free to go down there and look at it.

Director Word then reminded the board of the AWA Annual BBQ next Thursday. Rebekah Vieira added that reservations needed to be made this week and she would need to know who will be attending by Thursday.

Director Word then asked Mr. Johnson if anything was resolved with the State Water Resources Control Board. Ron Merckling reported that he has contacted the chair of Board and sent an e-mail. As of today, I have sent requests to all five board members to meet with us. I have talked to the staff person that is working on the case. That person had been talking with Jim Edmonson about the complaint and is concerned about meeting with us to resolve the issue. I have also been in contact with Audra Strickland and it looks like we have a meeting with her office and she will be present. I will be sending information about that meeting to our board members. I have also contacted the governor's office.

Director Baggerly commented that in the latest issue of Time Magazine, July 18, 2005 issue there was an interesting article on how many dams in the United States are now coming down.

Director Bennett commented that now that the web site is being updated, we should get the web sites, both recreation and Casitas listed on the letterhead.

Director Kaiser asked about reimbursement from FEMA and OES and have we heard anything at all about reimbursement? Mr. Johnson said he had talked to Steve recently and he has been in touch with FEMA and he indicated to me that he hasn't got the actual approval paperwork but everything seems to be in line for getting approval for all of the projects with the exception of the one that they initially declined. He is

submitting information on that one. President Hicks asked if he was talking about the rerouting of the line over the Rincon. Mr. Johnson said we were talking about putting a line over that steep gully where we had the break.

President Hicks asked if we got any of the other money. He added that his buddy that works for FEMA said his impression is that we got the money. Mr. Johnson said we got the money to fix it. That is what they are telling us. President Hicks asked if we have the money in the bank and have we cashed the check? Denise Collin said we have received \$188,000. President Hicks said we applied for a lot more than that. Mr. Johnson said yes. President Hicks said he wants to know what we applied for and what we have. The guy I know was under the impression that we were paid already. Denise went on to explain that we have from FEMA information on what they are considering but we have not received all the money yet. President Hicks asked what the total is that we have applied for. Denise said approximately \$800,000. President Hicks asked how much of the \$800,000 was for the work to go around the Rincon. Denise said she would have to get that information for you. Director Word said you have that listed as part of the five year budget process listed under FEMA, \$160,000 for Robles clean out, \$40,000 for Barrow Road catch basin, \$50,000 for crossing culverts, \$60,000 for spillway channel, \$300,000 for the relocation of Rincon and that is the one. \$30,000 for Casitas Vista Road repair, \$20,000 canal panels, \$17,000 Ventura 1M, Fortress tank debris at \$10,000, \$13,000 control and Rincon control at \$4,000. It is a \$1.386 million. President Hicks said he would like to know what they have paid us for and what they haven't and then we could make some calls and put some pressure on them to get the money. We were under the impression that this would be a slam dunk. Director Word said they won't be all at once. Director Kaiser added there are the permanent repairs and it would be nice to know how much we will have to get that reimbursed in the future.

Mr. Johnson said when he talked to Steve about that he indicated that it is a funny thing that is going on with FEMA. Regarding the hazard mitigation funds, they are using the funds they got from congress for this damage for two damages ago. They are funding pre damage for some reason. They don't have any money for it at this particular point. President Hicks said there must be some documentation on the \$188,000. Denise Collin said she would provide it for the board.

Mr. Johnson reported that we have two new employees to introduce. Denise Collin introduced Caron Smith the new Accountant. Caron explained that right now she is doing the accounts payable and trying to get familiar with that. Director Word said we want to pay on time. Caron said that is her goal. Brent Doan introduced Joe Goss as the new Park Services Officer II. President Hicks said we are happy to have both of you here with us and we hope that you come back to our board meetings every now and then to say hello. We will see you Joe out at Recreation but we don't get into the office very often.

3. Consent Agenda. APPROVED
 - a. Minutes of regular meeting held June 22, 2005.
 - b. Approval of granting Frequent Visitor Passes to part time fisheries biologists.

Director Word commented on the frequent visitor passes for the part time fisheries biologist and will it be stickers on the car? Mr. Johnson said it will be what we are doing now and I think we have moved to stickers. Director Word asked as an employee why are they interested in this. Mr. Johnson said being involved in the fisheries in Robles they have also been asked to be involved in fisheries at the lake. Director Word said as an employee they should have this.

On the motion of Director Bennett seconded by Director Kaiser and passed the consent agenda was approved.

4. Bills.

APPROVED

President Hicks said you have already answered my question on the bills as to why there was a negative number and it was a lost check with a check reissue.

Director Bennett did not have a question about the bills but asked if the movie screen is up and running and working successfully. Brent Doan reported that it was used Saturday night and we will be setting it up at campground G on Saturday night. Brent said for the water park it could be a little too late at night and a bit cool. Saturday nights at the campground it should be good. President Hicks asked if the projection comes from the front or back. Brent said it is a blimp screen and inflated so the picture is projected on it.

Director Bennett said the other question is that we have paid for our brochure and it was updated and has the board seen it? There is a bill in here that has been paid. #18736 to Whisenhunt. Ron Merckling said we recently did the newsletter and water quality report and that might be what that is for.

President Hicks commented Ventura is sending to the Rincon people the water quality report for the City of Ventura which could be totally different than ours. I don't know if there could be any liability. I said they are wasting their brochures because it doesn't apply to these people. Director Bennett added it does when they run out of water. They did the same thing for Meiners Oaks and Ventura River had an insert from Casitas. President Hicks said they are not hooked into Ventura. They are hooked into us. Director Bennett said they would be in an emergency. President Hicks said no they aren't because we had an emergency. Ron Merckling said there could be a problem if we provided our water quality report to those that are not our customers. Ron said only customers should have received our water quality report. Only our customers should have received it. President Hicks said they are a direct customer. Ron Merckling said they are receiving it. President Hicks said I don't recall getting one from Casitas although we got the newsletter. Mr. Johnson said if you got the newsletter then you got the water quality report. President Hicks said then Ventura is messed up. Director Kaiser said they probably blanketed the whole zip code.

On the motion of Director Bennett, seconded by Director Baggerly and passed the bills were approved.

5. Committee/Manager Report(s). APPROVED FOR FILING
- a. Finance Committee Report
 - b. Recreation Committee Report
 - c. Personnel Committee Report
 - d. Finance Committee Meeting with Auditors Report
 - e. Report on specific issues
 - f. Report on replacement capital funding
 - g. Report on five year capital projects

Mr. Johnson explained that there are a couple of reports he wanted to mention. One is that the Finance Committee felt that we should have a fall planning schedule or session on the long term financing plan and goals and objectives of the district. They have asked me to come back and present that to the board. Just mention to you under personnel that I will be on vacation next week, will be back a week and then gone for two more weeks. While I am gone, Steve Wickstrum is in charge. President Hicks asked if we should try for the first couple of weeks in September. Director Word said it would be in the fall and what date do you get back in September. Mr. Johnson said I get back in the middle of August and we will have a finance committee meeting shortly thereafter. Director Word thought the last part of September might work.

Mr. Johnson continued that there was a meeting with the auditors and was discussed in your report on the second finance committee and the auditors asked that we have a discussion about the issues that they brought up. They had 26 of them and the last issue seemed to be the one that they asked us to make sure that we mentioned at the board meeting. There was some concern by the auditors about board members going directly to staff around management. You can read that and what they said about that. The auditors seem to be very concerned about all their requirements under the new Sarbanes-Oxley act because of Enron and they were trying to take care of everything that was coming out. They are real concerned about anything. There is low tolerance for fraud. They felt that the structure of the district should be followed in the board asking things of staff. Director Bennett added that board members can go to the managers just not directly to employees. Mr. Johnson said that is basically what they were saying. Director Bennett said it does not have to go to you we could go to a manager but not directly to an employee or get someone in the hall and say I need this done or something. The manager, if he had a problem, would go to you and you would get back to the board member. Mr. Johnson explained that what we have tried to do in the past is that we felt that if an employee could answer one of your questions in five minutes or less then it was that kind of question there is no need to ask the managers to translate for you a real itty bitty questions. If you are asking them to do more than that or taking more of their time than that the feeling was it probably should come through management. Director Baggerly said I hope that is what they meant. Staff can answer simple questions. If you need anything further you go through John. Mr. Johnson said that is what I told the

auditors and this is what they told me and two of your board members. Director Word said that will also be pointed out as part of the organizational study.

President Hicks asked when the organizational study would be coming out. Mr. Johnson said we have the draft of it. The Personnel Committee has reviewed the draft. We are hoping to get some final things straightened out so we can get you the draft near the end of the month and then we will take it up at the second meeting in August when I get back.

Director Kaiser asked if John had any comments about the replacement capital. Mr. Johnson said he received a request by the board to go over replacement capital funding. Replacement capital funding has mostly to do with what the accountants call matching. That is, you try to match revenue that you have set aside to an expense that you are incurring. The match in this particular case is when you build a facility. Let's just say it is the pipeline and years later you need to replace that facility because it is beyond its useful lifetime and it is costing more to keep it than replace it. When you replace it, it is called a replacement capital project. When you build something new, let's say the fish ladder, the fish ladder is a new capital project even though it goes on to or is attached to an existing capital project. Those are the kinds of definitions that we are talking about when we talk about new and replacement. When you talk about storm damage repair that is not new or replacement. It is something that we have set aside in the past to try and have money to deal with that because it happens to us. What it means is the facility that you built and paid for did not last until the end of its anticipated lifetime. You have to replace it early. That happens to other ones too but in storm damage it is a storm damage thing and sometimes we get grants for it and we still have to replace it. Typically what we have set aside is money to try and take care of that.

We fund our replacement capital by our depreciation charge. We took a look at all of our costs that were even proposed to you this year for replacement capital. I went through the list quickly and said these are replacement and these are new capital. I looked at the costs of the new capital that was proposed versus what you are setting aside. This year, for example, you had about \$440,000 of new capital and \$712,000 of replacement capital with a half million in storm damage. We bypassed some projects, \$151,000 new capital and \$696,000 of replacement capital. In your five year plan which is also in the agenda it shows about \$40 million being requested about \$33 million is new capital and about \$7.5 million is replacement capital with about \$1.5 million added per year on the replacement capital. As far as funding goes, your depreciation cost is funding about \$1.6 million a year. We have in the rates an amount of money that is for depreciation. This is straight depreciation on original costs.

President Hicks commented that is a misnomer, in a private industry a depreciation creates cash flow because you save taxes. You can't look at it the same way. Mr. Johnson said what you have done is you put the depreciation charge in the rate and are collecting the money for it. President Hicks said it is a different cash flow model from the private sector. He added that the money is generated by rates not by

depreciation whereas in the private sector depreciation creates cash flow because you pay less taxes. Director Baggerly added that this causes an effect on the rates.

Mr. Johnson continued that you have a method for funding replacement capital. That method seems to fund adequate dollars for what people are asking you to replace on existing capital as it is now and for the next five years. You have no mechanism to fund new capital. Therein lays one of the problems. One of the mechanisms we used in the past to fund that included the tax money we never really anticipated but it builds up over time and we were able to use it for some of those things but we also used some of our reserves to pay for it too.

I also took a look at if replacement capital and water and replacement capital in recreation were adequate. They appear to be adequate for both of them for what we are budgeting this year and what we put in the capital plan for at least the next five years. One of the issues in recreation is the \$3.3 million that water has advanced to recreation for the capital program. It does appear that the types of things that have gone to replacement capital program are only costing about \$60,000 per year. If we went along much the same as this year we would probably pay it back in about ten years. However we do have a number of new capital programs at about \$5 million and we don't have the funding for all of that. I took a look at the revenue changes. If you look at over fifteen years we have just about balanced in recreation. If you look at five year increments, the first five we lost, the second five we were closer to breaking even and in the third five years we paid back. Now that we are paid back it would appear that you are generating a surplus of about \$238,000. You have some of the money for new capital that you are generating out of recreation at this particular time. If you hold your replacement capital as to what it is and you use that, you generate about a quarter of the amount that you need for new capital in recreation.

Director Kaiser said it goes on in the same paragraph to talk about recreation area would need to develop additional revenue of \$509,000. Is that because of ongoing improvements that will need to take place in recreation? Why would we need to develop additional revenue of half a million dollars. Mr. Johnson replied that why you need to develop additional revenue is that we keep saying we want to balance recreation and pay the water side back for recreation. It is my personal opinion that the best way to do that is to improve the recreation operation for things that people want such as RV spots. If you continue to improve it people will continue to come and you will raise your revenue and that revenue increase will be enough to pay for the improvements and pay you back. If you don't what is likely to happen is you are likely at some point to level off on the revenue curve and start down the other side. The facilities will get old and people will expect something new out there. I think that the solution we would propose is that you have to do regular improvements out there, directed toward projects that will help you keep the budget balanced and pay this money back and a new project every year or so to make that work.

Director Kaiser added I am assuming that there has been a cost benefit analysis that has been done. If we were to spend half a million dollars then the benefit would be

such and such correct? Mr. Johnson said it is real clear that your cost benefit analysis, the ones we have done in the past, have shown that your improvements in campsites to RV sites provides quite a benefit for you in terms of revenue. A couple of great things happen. Your revenue goes up, your problems go down. The RV'rs don't have quite as much problems.

President Hicks commented that the campsites in camping are more close together than the RV sites. Mr. Johnson said we start them out, make them nice, charge more, make more money and make enough money to not only pay off the facility but also pay back the facility. It is an ongoing struggle to keep the balance and repay everything.

Director Word asked Brent Doan if he could share the conversation from the other day as to what is happening at the campsites. Brent Doan said that in this month's recreation report he put in that we are selling out for the coming weekends. It used to be Friday morning but this year it started being Wednesday and Thursday that we were selling out. This week it was Monday. Monday we sold out for this coming weekend. This whole week we have people calling for the weekend and we have no sights. As I drive through the campground it kills me to see the big diesel pushers up in campground O and they would gladly pay for these upgraded campsites. Now we are turning away a lot more people because of the improvements we are making. We are attracting better units that will pay more. Mr. Johnson said there is one other thing that we found when we did the analysis on the attendance out there. What happens is that the RV site people stay longer and they are filled more often then the other sites. For example in the summer it does not make a lot of difference but as you move into the fall and spring and even in the winter more people are likely to come out for an RV site then for a campsite. President Hicks said because you are more self-contained, you are warm.

Director Baggerly asked about the paragraph on the top of page 67 starting off with the cash flow on the recreation side. To make the assumption John that the amount of revenue is going to continue in an upward mode and do you consider that to be a conservative estimate based on number one. What bothers me is what comes after the project increments. We come up with a \$244,627. \$16,308 per year and then we jump into how much money you think we will make overall because of this new revenue producing last five year increment. Then you move into taking the \$237,894 a year profit and you combine that with the depreciation amount. The depreciation amount is part of the money that is supposed to come back to the water side to repay for the water adventure. You are adding that to the funding mechanism for the future years which comes to \$589,114. Then you are saying that takes care of the funding necessities for recreation side and capital improvements for the long term funding, the long term plan. To me, this means that recreation should be funding all of their capital improvement themselves without paying back the depreciation amount. How does the water side get their money back?

Mr. Johnson answered that one way you could do it is that you basically just stay where you are this year. Don't do any improvements and the idea is that over a period of time that \$500,000 will pay you back the \$3.3 million. That is one way you can do it.

Director Baggerly said it only comes to \$2,945,000. Mr. Johnson said go one more year out and in six years you have it paid back. The issue is not what is going on in five years. One of the assumptions in the whole analysis is that you continue progress out there for improving the sites that you have. If you don't continue that progress what is likely to happen is that you go over the revenue peak and down the other side and you may never be able to pay it back. You are building revenue as you are doing these things. If you build it on an ongoing slope it will continue to rise. If you stop which is one of the options that I gave you, the problem with that situation is that the facilities will get old; everybody will see what you have. Things aren't new and people will not come back. You start going over the top of the revenue peak. The proposal that I suggested to you is that what happens when you continue to put money into it, you actually gain more revenue on an ongoing basis then you're repayment requires you to incur. Just like we say on those increments for those five years. You improved from negative to positive. If you continue you can go to real positive and if you can get to real positive then you will make a lot of progress in paying it back as well as paying for the new facility that you put in to make that progress. That is what that five year increment shows you. If you want to look at the numbers a little bit differently you can say people may not come out and do that. I don't have a perfect crystal ball about what is going on but that is what those numbers look like to me that you will gain as you move forward. If you don't move forward you won't get there. President Hicks said it is like econ 101 it is like the velocity of earning. The more you put in the more it expands it at a greater rate.

Director Baggerly added the only question I want to get answered is water or administration going to get paid back the money that is owed, that the rate payers paid. President Hicks said yes, we don't have to pay ourselves back in five years or ten years. We can pay ourselves back as we want to. We are like refinancing a little bit, like taking a second on your house to make an improvement to make it worth more money. You put a new kitchen in and it goes up more than twice what you spent in value. Director Baggerly said if you look at number two to continue development of revenue producing improvements that is an ongoing process and then you keep spending money to make money. President Hicks said it is that way in most business. You have to keep updating. Director Baggerly said that is fine if that is what the board wants to do but recreation needs to pay back the water side.

Mr. Johnson commented that he thinks that according to number two he thinks it does say that. If you look at the first five year period we lost a lot of money. We are putting improvements in as we go along. In the second five year period we get closer and in the last five year period we made money which balanced the whole system out. If you continue your progress you will move not just a small amount of revenue you will improve to a larger amount of revenue and that larger amount of revenue I think will not only pay for your previous commitment it will pay for all your new commitments too. Director Baggerly commented that in the last five years the lake was down. Director Word added the lake still made money.

Director Word continued and said that the trend nationwide certainly supports what you are saying. The camper today is not the rough-it camper; it is the one that

wants to hook up everything with all the amenities. Bill, you are in the recreation business and is the price of gas affecting it. President Hicks said the price of gas is irrelevant as it is such a small cost of recreation and you don't go that far. Director Word said that makes it more urgent that we find a solution for this. We do have a large population of people that can and would come to the lake if there were a place for them to park.

President Hicks added that we can't lose sight of the fact that we want younger people to be able to come to the lake and camp. I think we need to get our campsites further apart. My daughters came up here and camped a month ago. You are only 20 feet apart and it is no wonder you have trouble. We need to get them spread out more. We can't do away with all the inexpensive sites. Director Word said we need to continue to update them, not just leave them in total natural settings. We have to keep working on them. The camper is more discriminating and more demanding today. President Hicks said the more revenue we can generate, the better lake we can have, the better experience people can have, the less expensive water rates we can have. We have a unique situation here and this board recognized about ten years ago when we decided to go the route that we did and I think that the proof is in the pudding. I have been out to the water park every weekend and it is loaded and sold out. Director Word said that in the past it has been sold out on major weekends and holidays and now it is sold out every weekend.

Director Word added that before we get into a work session on this we probably need more clarification on some of the specifics. For example, the \$750,000 that is projected to do Lakeside and then there is another \$750,000 to do E. E is already somewhat developed. I'm not sure what we would have, fewer or more campsites. Lakeside probably has fewer but they can be used all of the time. I guess I wasn't really aware that we needed to look at E also. I guess what we would want when we got into that discussion to set priorities is what we would expect the return to be on those campsites and then we can determine if we do one this year and one in three years or do one and another in the future.

Director Word continued with another question on one of the capital projects earlier on just capital projects. You said that there was about \$40 million needed for new capital and replacement capital. \$32 million of which is new capital. 60% of that is all scheduled in or around the shore. Rincon, Seacliff, all of that area with tie-ins, expansion of capacity. I guess part of the question would be if you do some of those projects would they not take care of and or eliminate or minimize to do some of the others? You have interties at the Rincon between Mussel Shoals and Seacliff. How would that do with the pipeline intertie between all the coast and Ventura? If you do one, would you have to do the other, or do you have to do all of these? There is \$5.2 million for a desalination plant. If you do that would you need the tie-in or all of the tie-ins or the increased capacity for Rincon? President Hicks said that was his question after he read it. Director Word said we would have to look at all of those things and set some priorities because I have a feeling that \$32 million might drop at some point. Those are some of the things that we need to discuss. President Hicks said that is an all day long session.

Director Kaiser apologized for bringing this up but it is important to point John in the right direction. I agree with you Bill that we have to look at how we are attracting young families, making sure that costs are still maintained in the rate structure. We are having fishing derbies and it is nice to get the kids out there at the lake. We have to look at what this will mean to our future generations, five and ten years from now in how they will enjoy the lake. John, when we are talking about revenues was this considering the rates will be stable in either recreation or water or did you look at a multiplier. Mr. Johnson replied that I was thinking that your board would track the cost for the most part and that the financing plan would talk about any increment above that in order to complete these projects that we wouldn't have money for. President Hicks said our costs are rising so we will have to continually raise rates. Director Word said we still have a projected \$190,000 for pest control. President Hicks said these are some of the things that we will want to discuss at the meeting in September. Mr. Johnson said our plan is to try to feed you these reports over a period of time so we can have short discussions like this. By the time we get to the fall you have most of the information already. Director Word said we do need some plan to set priorities. Then we can practically start working on how we will fund this. President Hicks said we should defer the rest of this discussion to our planning meeting in the fall.

On the motion of Director Bennett, seconded by Director Kaiser and passed the reports were approved for filing.

6. Information items:

Level of lake -07/06/05 - -563.90 feet above mean sea level (3.10 feet below spill elevation); present storage is 245,675 acre feet (8,325 acre feet below full capacity of 254,000 acre feet, 118,675 acre feet above half capacity, or 96.7% full capacity).

- a. Letter to Mr. Elliot Sturman in response to his letter regarding noise.
- b. E-mail to Mr. & Mrs. Burk in response to their concerns regarding maintenance in Campground I.
- c. Recreation June Report
- d. News Articles of Interest
- e. Investment Report of July 6, 2005.

President Hicks was pleased to see the recreation report versus last June. We were up a lot. He added that he doesn't understand the boat statistic. Brent said one thing that he and Brian are talking about is that young fisherman have been decreasing. They have had a lot more things to do then fish with baseball and soccer. Maybe they are over at the water park now. Director Word said maybe they are kayaking. Mr. Johnson said Brian said to me is that he feels that all the fishing license money that goes to fish and game is not being put back into the local water agencies or the facilities for these kinds of things, for programs for developing those kinds of programs. What is going on is like with the RV you have people pushing that industry ahead all the time. You don't have the same thing going on in fishing. What is going on is exactly the kind of thing

that we have explained. If you don't push it you will fall back. If you do push it you will move ahead. You need to keep moving ahead.

7. Closed Session

- a. Conference with Legal Council- Anticipated Litigation
Significant exposure to Litigation-Facts and Circumstances that might result in litigation against the agency, but which the Agency believes are not yet known to a potential plaintiff or plaintiffs. Government Code Section 54956.9(b)(3)(A).
Agency Claimed against: Casitas Municipal Water District
- b. Conference with Legal Counsel – Existing Litigation (Subdivision (a) of Section 54956.9 Name of Case: Casitas Municipal Water District vs. United States.

President Hicks adjourned the meeting to closed session pursuant to Government Code Section 54956.9 at 3:50 p.m. Upon adjournment of the closed session and resumption of the public session at 3:54 p.m. President Hicks announced that no action was taken in closed session. The meeting was adjourned immediately

Secretary