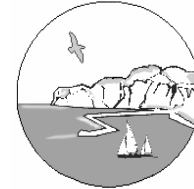


# B O A R D O F D I R E C T O R S

## R E G U L A R M E E T I N G

J U L Y 2 6 , 2 0 0 7



## M I N U T E S

The regular meeting of the Board of Directors of South Coast Water District was held at 6:00 pm, July 26, 2007, in the offices of the South Coast Water District at 31592 West Street, Laguna Beach, Orange County, California.

There were present and participating the following Directors of the District, to wit: RICHARD DIETMEIER, RICHARD GARDNER, INGRID MCGUIRE, ROBERT MOORE and RICHARD RUNGE. Also present were MICHAEL P. DUNBAR, General Manager (teleconference for the Aliso Creek Water Harvesting Project); BETTY BURNETT, Director of Administration/District Counsel; JOE MCDIVITT, Director of Operations; BOB CLARK, Director of Engineering; GARY LANGDALE, Director of Finance; CAROLYN RYNDA, Controller; and REGINA BARNES, Administrative Assistant.

Those who voluntarily chose to sign the attendance roster are so noted on the attached that is made a part of the permanent minutes.

Richard Dietmeier, President of the Board, presided, and Regina Barnes recorded the minutes thereof. The meeting was called to order. Director Moore led the Pledge of Allegiance to the Flag of the United States of America.

### **Oral Communications/Public Comments**

Mr. Ed Labahn, ratepayer, commented on the groundwater facility and the sewer tunnel projects. He also discussed the need for the Board to address all questions and concerns presented to them under Oral Communications.

### **Special Presentation**

Ms. Kathleen Kane, Plan Administrator, introduced Tom Wilson with Wolfson/Sutherland Group. She noted that Wolfson/Sutherland Group had moved from Smith Barney to Wachovia Securities. Mr. Wilson reviewed the fund changes they were recommending: 1) adding Jennison Small Company A; 2) replacing Mainstay Mid Cap with Principal Investment Mid Cap; and 3) Closing Am Investment Company and transferring funds to Eaton Vance Large Value.

General discussion ensued regarding the Board's fiduciary responsibility, the relationship that Wolfson/Sutherland Group has with the District, and general questions about the fund investments.

*Upon **motion** by Director Dietmeier, seconded by Director McGuire and passed by a 5-0 vote, the Board directed the Plan Administrator to enter into an agreement for services for the Wolfson-Sutherland Group inside of Wachovia Securities and make the recommended changes.*

### **Consent Calendar**

The following items were pulled for further discussion: 2a, Board Minutes of June 14, 2007; 6, Sewer Lateral Lining Repairs; and 9, Annual Investment Report.

*Upon **motion** by Director McGuire, seconded by Director Runge and passed by a 5-0 vote, the Board approved the remaining Consent Calendar items.*

## **2a. Board Minutes of June 14, 2007**

Mr. Banister, ratepayer, wondered if items 3-2, 3-3, and 3-4 in the June 14<sup>th</sup> minutes were included in the budget and if so, what were the budget numbers? Ms. Burnett replied that the items came up late in the budget process and therefore was not included in the budget. President Dietmeier noted that they were still in negotiations and the timelines had not been identified. Regarding Item 3-4, JRWSS relocation of the 30" main on Seabright Drive, Ms. Burnett indicated that the money for that project was in the 2007-08 JRWSS budget.

Mr. Labahn, ratepayer, stated that in the June 14<sup>th</sup> minutes under "Items to be Considered at Next Meeting" there was to be an update on the Groundwater Recovery Facility but he noticed that there was nothing in the agenda about the project. President Dietmeier replied that it was not on tonight's agenda because the project had not been completed and there was nothing to report. Director Gardner expressed his concern that there was not a mechanism to track what the Board members have asked for. He suggested a running list of all the items and a monthly update. General discussion ensued. Ms. Burnett indicated that she would advise Mr. Dunbar of Director Gardner's concerns and request direction.

*Upon **motion** by Director Dietmeier, seconded by Director Runge and passed by a 5-0 vote, the Board approved the Board minutes of June 14, 2007.*

## **6. Sewer lateral Lining Repairs – Award Construction Contract to Southwest pipeline and Trenchless Corp.**

President Dietmeier stated that he pulled this item because this was a sole source contract and he had noticed in the staff report that staff had done some negotiations which helped bring the costs down. He noticed that the District had used this company before and the unit cost then was \$2,000 an installation. The dollar amount in the contract was below that. General discussion ensued.

*Upon **motion** by Director McGuire, seconded by Director Moore and passed by a 5-0 vote, the Board authorized the General Manager to 1) award a contract for construction services on the sewer lateral lining repairs project to Southwest Pipeline and Trenchless Corporation in an amount not to exceed \$94,500, and 2) approved changes orders, if required, up to \$9,450 (10% contingency).*

## **9. Annual Investment Report**

Mr. Langdale discussed the Investment Report which he noted was an annual requirement by state law. He introduced Jay Lembach who described in more detail the District's investments. General discussion ensued.

*Upon **motion** by Director Gardner, seconded by Director McGuire and passed by a 5-0 vote, the Board received and filed the Investment Report.*

At this time, President Dietmeier called for a short recess. The meeting was called back to order at 7:00 pm.

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**New Business****10-1 Aliso Creek Water Harvesting Project**

Noting that she had to leave, Laguna Beach Councilperson Cheryl Kinsman requested to speak at this time. She spoke of her support for the Aliso Creek Water Harvesting Project.

President Dietmeier requested a staff report. Ms. Burnett stated that there had been discussions going on with Clear Creek Systems, Inc. since the Board directed staff to look at the options and possible solutions to some of the District's salt problems that would involve use of some of the water from Aliso Creek. She noted that negotiations had happened and that the District had gotten to some numbers which would bring the project within range of what might be affordable to the District. She indicated that those terms were reflected in the staff report and in the Memorandum of Understanding (MOU) that was attached. She emphasized that the MOU was not a final contract but laid out the intentions with respect to what the District would pay for the system. She noted that there were a number of things about the project that had not yet been identified, the main one being what it would actually take and what it would actually cost to have the project fully permitted. Staff does not yet know what requirements would be requested from the Regional Board, what sort of comments staff would receive from the other agencies and, she noted, that staff had not fully investigated the project with SOCWA. She indicated that staff was hopeful that the agencies would provide a positive response to the project because it would reduce a portion of the flow out of Aliso Creek and put to a more beneficial use in the District's water supply. At this time, she requested the Board's comments and direction to staff.

President Dietmeier stated that the Directors probably had a lot of questions about the project. To give all Directors an opportunity to speak, he would go around the Board table and ask each Director to ask two questions at a time.

**Questions**

Director Moore noted that in the previous years in discussion of Aliso Creek, the County of Orange had always maintained that they owned the creek and the water in the creek as well as much of the watershed and that not much could be done in this creek without County approval in writing. He wondered if staff had a document from the County authorizing this project. Mr. Dunbar replied that staff does not have anything in writing from the County. He noted that staff had been in discussions with them. As far as owning the water in the creek, he indicated that staff would contact the State Water Resources Control Board as far as any water right issues that may be applicable to the creek, but staff had not done that yet.

Director Moore also asked if the present facilities owned by South Coast Water District at the Coastal Treatment Plant (CTP) that is presently used for recycled water, would that still be used and if so would the Clear Creek water be sent through the existing lines or would new lines be required. Mr. Dunbar replied that the District would still continue to use part of the current wastewater effluent that is produced by the CTP as source water. He stated that the theory was that Clear Creek would provide water with a lower salt content which would be blended with the AWT water. This would produce blended recycled water that would be around 800 parts of salt which would be well under the 1,000 that is the threshold for turf and other plants to grow.

Director Runge wondered why the County would not be a partner in this project as the creek is a County facility. Mr. Dunbar replied that the County was looking at the bigger picture of stabilization, environmental habitat and erosion for the whole creek.

Director Runge asked if Clear Creek would be interested in a 5-year contract period instead of a 10-year period and what would that do to the monthly payments that they expect from the District. Mr. Gannon with Clear Creek Systems replied that was one of the original items that they had looked at. He indicated that they had originally started off the project at a higher cost basis because there was some capital equipment and so in discussing with Mr. Dunbar it was determined that it could be a lower cost up front and long term benefits.

Referring to the staff report, Director McGuire asked how accurate staff's estimate of the deficit was. Since the District was bound by a contract with Metropolitan Water District (MWD) to only charge 80% of the cost of potable water, she wondered how much was the District bound by this agreement. If possible she would like to raise the cost of the reclaimed water which would help the District not incur a financial loss in the project.

Ms. Burnett replied that staff looked closely at the financial aspect of the project and the shortfall would be between \$190,000 and \$210,000 a year. She agreed that staff would have to look at changes to the contracts to increase the District's pricing for the recycled water if the District wanted to pick up that expense. She explained that there were about 8 or 9 recycled water contracts and most of those were at the point where they could be renewed and pricing changed. Mr. Dunbar reiterated that the 80% was an incentive program started by the District to get customers to use recycled water. There was no restriction.

Referring to the sewer and water master plan, President Dietmeier commented that it appeared that the District needed to do a serious formal analysis of the salt source in the AWT program to get a handle on the salt that is in this particular production problem. He noted that this was the only plant that SOCWA has that produces tertiary water at this AWT. Mr. Dunbar noted that over the years the AWT at the Coastal Treatment Plant (CTP) had consistently done anywhere from 150 to 200 parts of salt higher than the other plants. He stated that the District had not been able to isolate the source of the high salt content. General discussion ensued. President Dietmeier wondered if the soft water systems had anything to do with the salt content. He suggested that the District track those numbers down, find out exactly how many there were, find out exactly what their output is, and quantify the affects of that output on this system. He stated that he felt the District does not have a handle on what is flowing into this system.

Director Gardner stated that the staff report refers to tests that were conducted by the District to look for the high salt content. He asked to see the results of those tests. Mr. Dunbar replied that there was no formal written reply. Staff looked at the lab analysis that was done, where the manholes were that were tested and the results.

Director Gardner commented about the 800,000 gallons per day that would be extracted from the creek. He indicated that he was interested in seeing the environmental study that was conducted that showed what happened when 800,000 is extracted. Ms. Burnett replied that a study was not done.

Director Gardner wondered how long it would take to put the permits in place so that the District could get the go ahead by all the agencies to proceed. Ms. Burnett replied that Clear Creek System had permitted a couple of projects and worked on permitting. She noted that staff was hoping to make the case to the staff at the Regional Board that the District was not planning to empty the creek, just reduce the flow. There is a large amount of flow that is abandoned urban water runoff and therefore it would be in a different category when it comes to water rights permitting.

Mr. Gannon replied that this was a ground breaking project and so there were no guarantees. However, when an earlier diversion was done in Laguna Nigel, the State Water Board basically came down with the concept of it being abandoned water.

In response to a question from President Dietmeier as to how long it would take to get the permits, Mr. Gannon replied about six months, mainly because of the support of the other agencies and environmental groups.

Director Moore commented on the residue and what happens to it after the water was run through the process. Mr. Gannon replied that it would go into the ocean outfall line. General discussion ensued. Director McGuire reminded the Board that the brine gets separated and put out into the ocean. It does not disappear.

**Public Comments**

Dick Banister, ratepayer, wondered if this project was in the budget. Ms. Burnett replied no.

Mike Beanan, South Laguna Civic Association (SLCA), thanked the Board and staff, particularly Mike Dunbar, for the work that had been done in the last ten years or so. He reminded the Board that this project was being supported by local, regional and international environmental groups as a model for other coastal communities in handling ocean pollution. Relative to water rights, he stated that the SLCA contacted water right attorneys in the state. They said that given the emergency conditions this water posed to the health and safety of the public and the beach they would entertain a provisional water right which meant that the District would have one year to actually perfect the water rights. In the case of Aliso Creek there are no downstream folks other than the golf course. He discussed the issues of the TDS levels in the reclaimed water which needs to be resolved. In the intervening time, this project would not only retain existing customers but bring on previous customers such as the golf course which would help recoup some of the costs. He stated that the MOU was intended to be a signal to the County and other agencies that the water district was serious about investigating this issue and moving it forward to an eventual project. That kind of a signal would trigger a response by the County and other environmental organizations that contribute whatever shortfall monies that would be required.

Penny Elia, Sierra Club, spoke of her support for the project.

Jackie Gallagher, ratepayer, spoke of her support for the project. She wondered what would happen if the Board did not move forward on the Clear Creek project. What would the Board do to clean up the salt?

Jinger Wallace, ratepayer, distributed handouts. She commented that the project has broad community support as well as support from major organizations, business, governmental bodies and District staff. She discussed the importance of the letters received by the Board in support of the project, indicating that maybe grant money might be obtained to help pay for the project. She wondered how people in Dana Point felt about Aliso Creek, a place that's not in their city. To find out she went to the Ralph's Shopping Center in Dana Point and circulated a petition for 40 minutes and collected 16 signatures. She noted that every person she talked to, except for one, signed her petition, which to her meant that the residents of Dana Point supported this project.

Lisa Marks, ratepayer, spoke of her support for the project. She distributed handouts and spoke on budgetary considerations (i.e. what is the cost to the District of the reclaimed water system if the District does not do the Clear Creek project and what is the cost to the District if it does do the Clear Creek project).

Bill Rihn, SLCA, indicated that there was very broad support for the project. He commented that it had advantages in terms of it being a source of water to help alleviate the overall shortage in California, it benefited residents and those who live in the area, and once the project got started the cost could be worked out and be made reasonable.

Anne Caenn, President of Village Laguna, spoke of her support for the project. She complimented the District for recognizing the negative impact of ocean pollution at Aliso Creek and working through innovative ways to curtail it.

Ginger Osborne, ratepayer, thanked the Board for considering the project and urged the Board to adopt the MOU.

Trace Klug, ratepayer, and a mother of two small children and Girl Scout leader. She stated that she works with many families in the area and indicated that this was considered one of the area's most urgent environmental concerns. It would not be worth it to them to save a little bit of money to have the entire environment destroyed.

Tom Osborne, ratepayer, commented that he has lived in South Laguna since 1974 and that he felt ten years was a long time to be thinking of cleaning up Aliso Creek. He stated that

there were no risk free or cost free options and felt the greatest risk and cost would be to maintain the status quo and do nothing. He urged the Board to move forward and adopt the MOU.

Ed Labahn, ratepayer, stated that he was very impressed by the local interest in the project. But he felt it was based on emotional reasons and not based on an objective engineering project oriented approach. He suggested that the project be further analyzed and funding identified.

### **Discussion**

In response to a question from Director Moore as to how staff arrived at the \$100,000 figure that the District would save in the payments to SOCWA, Mr. Dunbar replied that it was his best guess as to reduced chemicals, pumping, and staff time. He noted that the District would use about 300 acre ft. of Clear Creek water so there would be reduction in the AWT.

Regarding the costs of the project, which could be as high as \$600,000 for the next five years, Director Moore wondered how the District could justify this to the ratepayers of Dana Point when they are already paying for the clean up Salt Creek and Poche Beach. Mr. Dunbar replied that one of the main reasons staff was recommending approval of the MOU was his recent discussions with the Monarch Beach Golf Links. They have indicated to him that they are not able to flush the salts out and it was starting to affect, not only the greens, but also the fairways. They are asking what steps the District was taking to provide a product that they could use.

President Dietmeier commented that it looked like the District had a window of about 6 months whereby the District would be doing paperwork. His question to staff was if the District had to take the AWT rate structure in this time frame would the District have to subject the District's customers to a Proposition 218 notice? Ms. Burnett replied that the District could deal with the rate issue. The District would notice those customers and they would be included in the discussion of the rates, etc.

President Dietmeier asked if the District focused on the source of the salt and did some investigation with regard to the water softeners, could that be concluded in a year with some conclusive results as to whether that is or is not the source. He also commented that the Board needed to take a larger view of how the AWT would fit in in the long range. He stated that he would like to get a handle on the finances and engineering aspects of the project and look at alternatives because it is a 5-10 year contract. He would like to have staff tell the Board with some confidence that the District could take this on as a project, that the District could carry it as a revenue neutral situation for permitting, that the District could get the rate structure realigned so that the District would be in a neutral or positive cash flow.

Ms. Burnett reiterated that by signing the MOU the Board was saying that the District would go out and discover what the additional cost components would be. At the same time, staff was comfortable that it could start to begin to develop for the Board the rates (i.e. where it should be on the recycled water products) and bring that back to the Board in the next 6 months to a year. Regarding the questions related to recirculating pump systems, the AWT, salt content, etc., that would involve the District's engineers.

President Dietmeier asked for Mr. Dunbar's comments. Mr. Dunbar agreed with Ms. Burnett but his main concern was that he was not sure how the District would conduct the analysis of the water softeners. The District could do a mail survey or a survey to the customers but he was not sure how accurate that might be. President Dietmeier suggested that Mr. Dunbar, as president of CASA, would have a resource to be able to tap and find out if there were any other sewerage agencies that have this kind of problem.

Director Gardner commented that one obvious source of salt was the South Coast Hospital. General discussion ensued.

Regarding the MOU, President Dietmeier stated that he wanted to rewrite the MOU based on Board discussion. Director Gardner expressed disappointment that staff did not go out to bid on this project.

At this time, President Dietmeier called for a 5-minute recess. He called the meeting back to order at 9:05 pm. Because of the late hour, President Dietmeier announced that the Board would finish discussion of the Aliso Creek Water Harvesting Project and then adjourn the rest of the meeting to the regular E/O Board meeting scheduled for August 9, 2007.

Director Moore stated that the problem with the golf courses had been discussed many times before and he thought staff was going to explore other alternatives in dealing with the salt content. He was looking for a comparison. Ms. Burnett explained that what Clear Creek was proposing to do was close to what staff would have to propose to do to get the salts down. Mr. Clark stated that in an RO process the District would be looking at similar costs because anytime RO was used, energy is the predominant cost. General discussion ensued.

President Dietmeier suggested the following motion: 1) the Board approve the recommended action from staff subject to a rewrite of the MOU, 2) within six months a rate structure would be due for the reclaimed water in the District which would support the model that had been laid out, 3) a salt analysis of where the TDS was coming from that was affecting uniquely the water in the Coastal Treatment Plant would be due within a year, 4) in a year if all the permits are lined up and the District has the financial support from the County and when there is a rate structure that supports what the District wants to do, then the District can move forward. He indicated that he thought it would take a year to put into place. He suggested that the District do those 3 or 4 things and track this for a year and see if the District could not come up with a product that worked.

Director McGuire agreed that staff should do some background work but wondered if some of the items should be done before the Board approved the MOU so that the Board, for example, would know whether the rate structure could be changed. She indicated that she would like to see a figure lined up that showed what it takes to have this project be revenue neutral. She suggested that instead of approving the MOU now, the Board come back in two months and the staff could show the Board that it could be revenue neutral.

Ms. Burnett replied that the point of the MOU was to basically accept the proposal that Clear Creek had given to the District and to have the Board give direction to staff. The MOU is clear in its intent. It does not deal with the District's financial decisions but it is clear as to the steps needed to make it work and it has to be in place before there is a contract obligation. If the Board thought the MOU provided a good solution then it would be all right for the Board to move forward.

Director McGuire expressed concern with how much the District would be bound by the acceptance of the MOU in place. She indicated that she thought many valid questions were raised by the Board and that they should be answered in the next 2-3 months. General discussion ensued.

Director McGuire suggested the following motion: 1) let staff come back to the Board in 120 days with a revised MOU for the Urban Runoff Reuse Project, 2) that staff present to the Board how this project could be made revenue neutral (specifically, what type of rate structure would be needed for reclaimed water), and 3) that staff seriously look into the high TDS problem and have concrete suggestions on how to mitigate that problem/resolve it. President Dietmeier suggested that one more item be included: that staff seeks financial cooperation from the available MS4 Committees in the immediate Aliso area. Staff would make the inquiries with the City of Laguna Beach and the County. Ms. Burnett also requested an item be added: that staff move forward with the permits. The Board concurred.

Director Moore asked that the President and a Director along with staff meet with the City Manager, the mayor and one other Councilperson from Laguna Beach, and with the County of Orange to discuss this project. Director Gardner reiterated his feelings that whatever system

that dealt with the TDS and also had a component of using the creek water, there be an open competitive bid process. President Dietmeier requested that Director Gardner come up with the names of three other vendors. He noted that Clear Creek Systems has been here for 8 or 9 years and they were the only company the City of Laguna Niguel could come up with.

Mr. Gannon commented that Clear Creek Systems had put a lot of time and effort into the project. He noted that it is a great water project but he was not sure if the company could commit a lot more time to it. He was not sure if they could spend another four months on permits without a sense of where the Board stands.

*Upon **motion** by Director McGuire, seconded by Director Dietmeier and passed by a 5-0 vote, the Board directed staff to come back to the Board within 120 days with a revised MOU for the Urban Runoff Reuse Project and that staff, at that time, show the Board how this project could be made revenue neutral (specifically, what type of rate structure would be needed for reclaimed water), that staff look into the high TDS problem and provide concrete suggestions on how to mitigate that problem, that staff seek financial cooperation from the available MS4 Committees in the immediate Aliso area, and that staff move forward with the permit process.*

## Adjournment

There being no further business to bring before the Board, upon motion duly made, seconded and carried, the meeting adjourned at 9:40 pm to the regular meeting to be held, Thursday, August 9, 2007, at the time set forth in the Public Hearing Notice in the offices of the District, 31592 West Street, Laguna Beach, Orange County, California.

Respectfully Submitted:

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Recording Secretary

Approved:

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Richard Dietmeier  
President