



District Attendees

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| Randy Marx | Board President |
| Gary Page | Board Member |
| Misha Sarkovich | Board Member |
| Dave Underwood | Board Member |
| Tom R. Gray | General Manager |
| Michael Nisenboym | Operations Manager |
| Chi Ha-Ly | Finance Manager |

Other Attendees

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| Marty Hanneman | SJWD Board President |
| Paul Helliker | SJWD General Manager |
| Greg Zlotnick | SJWD Water Resources Specialist |

Absent

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| Michael McRae | Board Vice President |
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AGENDA ITEMS

I. Call to Order

- President Marx called the meeting to order at 5:30 p.m.

II. Public Comment

- None.

III. Presentation and Discussion

1. Discussion and possible action on Fair Oaks Water District Wholesale Water Supply Agreement update

Director Sarkovich explained that a rough draft of the update was submitted for review to the FOWD Board. Director Sarkovich stated he will deliver the draft update at the January 24th SJWD Board meeting during public comments. SJWD Board President Hanneman noted it is considered more of a term sheet review at this stage and that FOWD General

Manager Gray and SJWD General Manager Helliker would discuss further before SJWD General Manager Helliker would add to a SJWD Board agenda or from there be referred to a 2x2 with two Board members from both organizations.

a. Changes to Draft Agreement; details and explanations.

- i. General Manager Gray explained there is a written agreement on CTP where SJWD owns the main and individual agencies own capacity and FOWD wants a similar agreement for FO-40 where maintenance and capacity used are part of a written agreement.
- ii. Director Sarkovich noted SSWD has a five-year agreement and FOWD is trying to match the end date of that agreement. SJWD Board President Hanneman noted the SSWD contract is a 5-year agreement with a 5-year pricing schedule; whereas, the FOWD agreement with SJWD goes through 2045.
- iii. General Manager Gray stated the FOWD Service Area definition is meant as a concept to allow future transfers with other regional water districts. A separate article or transfer agreement was suggested by SJWD General Manager Helliker to refine a definition for this purpose.
- iv. SJWD General Manager Helliker stated a transfer agreement would need to establish source, and if it is not surface water from SJWD, it would have nothing to do with the SJWD agreement. He also stated the current agreement already allows for transfer of water outside the service area, subject to SJWD approval to ensure compliance with state statutes.
- v. SJWD General Manager Helliker noted that the whole section for rates was not appropriate to include in the agreement, as a five-year agreement on rates is already in place. SJWD Water Resources Specialist Zlotnick stated there is a cost of water and supply and the methodology from the SSWD agreement for treatment and transfer does not apply for FOWD.

b. Cost of Service Principles Related to Draft Agreement

- i. Director Page pointed out the fixed costs are a higher portion of costs for FOWD and not shared with new customers of SJWD.
- ii. General Manager Gray noted FOWD customers own the water in the existing service area. He asked if SJWD can sell water that does not recover the cost of service.
- iii. SJWD General Manager Helliker noted aging infrastructure maintenance and demand structure with limited growth are current cost drivers, not a buildup of infrastructure. He stated SJWD needs to optimize use of capacity in place to reduce cost and help regional transfers.
- iv. SJWD Water Resources Specialist Zlotnick noted treatment upgrades, reservoir, and allocated FO-40 costs are part of what determines costs for use of water, which is analyzed on a 5-year basis, based on prior usage rates. He stated this will be reassessed and recalibrated after the next three years.

- v. Director Underwood noted FOWD is locked in for another 5 years and even though FOWD decreased demand, it stills pay the percentage on that financial plan. He stated that when FOWD utilizes groundwater they still pay a higher rate whereas they want to offset the fixed costs of SJWD agreement.
- vi. Director Sarkovich noted that FOWD pumping of groundwater in 2017 changed nothing in terms of costs from SJWD. General Manager Gray noted that it cost FOWD more to pump groundwater given the current agreement. He asked how we can collaborate within the San Juan family to be in a stronger position for regional needs. Board President Marx would like a forum with a 2x2 to address equity perceptions and encouraged SJWD in this area.

c. Discussion of Rates in Draft Agreement

- i. General Manager Gray asked if FOWD is “a like customer to Sacramento Suburban” and it was noted by SJWD General Manager Helliker that they are different and FOWD has first right to water.
- ii. Director Sarkovich emphasized FOWD has options to establish other agreements with such efforts resulting in a payback estimated at 8-10 years with the goal to become more self-sufficient and stable. SJWD Board President Hanneman warned rates would “go through the roof” if FOWD does not work with the current SJWD agreement.
- iii. Director Sarkovich noted General Manager Gray says FOWD already will need to discuss another 9% rate increase just to keep even with 5-year financials and the rate increases in the current SJWD agreement. General Manager Gray noted it was a 19% increase from SJWD Board and 10% has been passed on, so the projection could be 9%, but may not happen if offset with some transfers or a collaborative effort to avoid that.
- iv. Director Sarkovich noted FOWD must submit to unilateral rate increases from SJWD. SJWD decided FOWD must pay 91% of FO-40 maintenance of \$4 million which was not part of 2008 settlement and he would like to eliminate FO-40 costs to FOWD. He stated FOWD is trying to stabilize rates, whereas SJWD is causing the rate increases for FOWD.
- v. SJWD Board President Hanneman pointed out SSWD is a different type of customer, while Orange Vale, Citrus Heights and FOWD are under the same agreement. SJWD Board President Hanneman said SJWD is open to looking at any differences among the wholesale customers, but rates will not change as those are fixed and he pointed out transfers would be the area in which to focus.

d. FOWD Water Supply, Surface and Groundwater Dependence and Reliability

- i. Director Underwood stated FOWD still needs to assess the ability to pump water. General Manager Gray noted 2017 was a test year where FOWD pumped almost 40% with 60% of usage coming from surface water. General Manager Gray wants to look at groundwater pumping reliability,

the aquifer and management plan. Director Page expressed interest in developing storage capacity.

- ii. Director Sarkovich and General Manager Gray suggested language to accommodate flexibility for drought year needs.
- iii. SJWD Board President Hanneman noted FO-40 throughput is good and raised concern about the pumping of groundwater and the long-term viability of doing so if the Aerojet plume becomes a factor. He noted the CTP and FO-40 provide redundancy if FOWD needs more surface water should groundwater sources become an issue.
- iv. General Manager Gray noted modeling was done for pumping wells at 100% and there is a financial remedy in place with Aerojet if they would need to make FOWD whole. SJWD Water Resources Specialist Zlotnick questioned this remedy should Aerojet business go away. General Manager Gray pointed out FO-40 redundancy was a decision of the FOWD Board and not a requirement, and Orange Vale uses the single CTP main, while FOWD pays the cost for redundancy, which is part of the inequity.
- v. Director Sarkovich noted FOWD has a Carmichael agreement in place at less than \$220/AF as a backup, but noted that if there is a drought, all agreements may be limited.
- vi. Director Sarkovich stated FOWD is asking for a fixed volume of water with the option to purchase additional surplus if both parties agree. SJWD Board President Hanneman stated they have fixed costs, so if FOWD pays less, another pays more, and that isn't possible. He emphasized that transfers and shortage are the areas to work out mutual benefits. SJWD Board President Hanneman reemphasized that the current pricing structure is not likely to change.

e. SJWD Recent Update of SSWD Agreement

- i. FOWD General Manager Gray pointed to the recent update of the SJWD and SSWD agreement and asked if FOWD can define the FOWD Service Area for authority similar to what is in SSWD agreement for water transfers to serve other regional water needs.
- ii. SJWD General Manager Helliker stated the agreement can't be changed. He noted it is not within SJWD authority to grant water transfers outside the service area and restated that the contract with SSWD is not the same as FOWD.
- iii. General Manager Gray questioned why SSWD has first right to surplus capacity ahead of wholesale customers who helped pay for it.
- iv. SJWD General Manager Helliker stated FOWD has first right of surplus already and the SSWD agreement is for usage above and beyond FOWD needs, which includes a minimum purchase and additional needs.

- v. Director Marx asked if FOWD has authority to declare the FOWD Service Area and General Manager Gray said no, and this is a key point that focuses on the need for collaboration.
- vi. Director Sarkovich stated that he would like to include in the draft a price similar to *what is in the SSWD agreement for the water purchases*. SJWD Water Resources Specialist Zlotnick stated SSWD does not purchase water from SJWD. He stated SSWD rates methodology does not apply to FOWD as it is the rate to transfer and treat, not the cost of raw water.
- vii. SJWD General Manager Helliker stated that SJWD cannot provide a different price to FOWD compared to other SJWD family members as it is not allowed by State Law.
- viii. Director Page stated FOWD is paying for capacity it does not need. FOWD is being charged for future customers.
- ix. General Manager Gray raised the issue of the shift to fixed cost from volumetric as FOWD has ability to utilize another water source and wants to address take or pay.
- x. SJWD Board President Hanneman noted that rate setting appears to be the fundamental issue and noted fixed cost allocation follows industry standards.
- xi. Director Sarkovich objected to the agreement that allows for unilateral decisions from SJWD with fixed cost obligations imposed on FOWD.
- xii. General Manager Gray asked about a business plan for the protection of assets, with costs and return on investment for wholesale customers addressed.
- xiii. Director Page noted FOWD should look to transfer agreements and find favorable relationships to help lower rates and address shortage. He acknowledged the rates are set.
- xiv. Director Sarkovich wants a Board action by SJWD that shows FOWD tried to address costs and come up with an alternative wholesale agreement that SJWD denied this effort.
- xv. General Manager Gray wants to look for common good and pointed to a pilot transfer in 2018 with Carmichael. SJWD Board President Hanneman pointed out other groundwater substitution transfer opportunities are being discussed and a decision needs to be made soon on whose groundwater would be used.
- xvi. General Manager Gray noted the draft will not be well received by the SJWD Board in the current form and asked if there is an opportunity to take the existing agreement and work on pieces of it.
- xvii. SJWD Board President Hanneman stated transfers are worth discussion, not re-hashing the agreement or rates.

IV. Other Business

- None.

V. Public Comment

- None.

VI. Adjournment

With no further business to come before the Board, President Marx adjourned the meeting at 7:51 p.m.

The Board approved the preceding minutes on April 9, 2018

Tom R. Gray
General Manager/Board Secretary

Date