



Minutes

Regular Meeting of the KID Board of Directors
 Carl W. Petersen Board Room
 Tuesday, October 19, 2010, 9:00 a.m.

President Jaksch called the meeting to order at 9:00 a.m. District Manager Freeman called roll.

Directors Present:

John Jaksch, President
 Gene Huffman, Vice President
 Patrick McGuire
 David McKenzie

Staff Present:

Charles Freeman, District Manager
 Ed Everaert, Engineering Manager
 Brian Iller, Legal Counsel
 Scott Revell, Planning Manager
 Colleen Storms, Comptroller/Treasurer
 Jason McShane, Staff Engineer
 Ben Woodard, Staff Engineer
 Mike Pearce, Maintenance Patrol/Pumps
 Lynda Rosenbaum, Assistant Planner
 Doris Rakowski, Executive Assistant

Directors Absent:

John Pringle

APPROVAL OF AGENDA: Director McGuire moved to approve the agenda. Vice President Huffman seconded the motion and it carried unanimously.

CONSENT AGENDA: Director McKenzie moved to approve the consent agenda. Director McGuire seconded the motion and it carried unanimously.

Items approved by consent agenda were:

1. Minutes, KID Board Meeting, October 5, 2010
2. Confirm Letter to Benton County Board of Commissioners, October 13, 2010
3. Approve Final Plat -Badger Mountain Village Phase 2B, Division 1
4. Approve Easement Vacation Request - 502 W. 48th Avenue
5. KID O&M Vouchers

Accounts Payable

Numbers: 60903 through 60944	\$	104,214.90	
60945 through 60989		43,366.06	
Total Accounts Payable			147,580.96

Payroll

Numbers: 31563 through 31568	\$	7,084.09	
Direct Deposit		61,330.35	
Total Payroll			68,414.44
Total Disbursements			\$ 215,995.40

Voided Checks: None

PRESENTATIONS: None

PUBLIC HEARING: None

BOARD REPORTS: None

ACTION ITEMS:

Monthly Financial Report: Ms. Storms expanded on some sections of the financial reports.

Pages reviewed were: Balance Sheet
Statement of Revenue, Expenses and Changes in Net Assets
Year to Date (YTD) Revenue Statement
YTD Budget to Actual Variance
Statement of Cash Flows
Balance Sheet Footnotes
Statement of Revenue Footnotes

Discussion ensued regarding asset depreciation. In answer to President Jaksch's question, Ms. Storms confirmed that she had assigned a depreciable life to assets using a financial basis and trying to be realistic about how long District equipment would last. The new program which was to be proposed would be based on the anticipated year of replacement divided by how many years were left to save for items. This method would be more accurate than depreciation.

Approval of Risk Mitigation Fund: Mr. Freeman presented the fund that staff recommended be created for the purpose of mitigating costs incurred due to the loss of control of water. As part of the annual budget, by the end of the first quarter, at least 5% of the carry over balance would be transferred to this fund. This fund would be combined with the existing fund for extraordinary operation and maintenance described in the USBR contract, and the first \$40,000 of the new fund would be reserved for that purpose. President Jaksch requested that the last sentence of the policy be edited to read "...affirmative passage by the District's Board of such resolution as deemed necessary for events that meet the aforementioned purpose."

Director McGuire moved to adopt Policy 2.28, Risk Management Mitigation Fund, with the identified modification. Director McKenzie seconded the motion and it carried unanimously.

Approval of Equipment Replacement Reserve Fund: Ms. Storms presented the policy intended to allow KID to become its own financing agency for the purchase and replacement of heavy equipment, rolling stock and the Amon and Chandler pumping plants. She said a spreadsheet would be created to schedule the approximate time of replacement for each piece of equipment and set up a reserve that, ideally, would have the cash for equipment needing to be replaced in a given year. If, early on, the District cannot afford to put away enough money, other means of funding a very large piece of equipment may need to be found.

In answer to Director McGuire, Ms. Storms confirmed that the replacement schedule spreadsheet would dynamically change over time and be presented to the Board annually. Director McKenzie asked if the major pump repairs at Chandler would be capitalized and depreciated out. Ms. Storms replied no; this would be a reserve in which, eventually, enough money would be set aside on annual basis to allow the District to self-fund equipment purchase and replacement. She said Mr. Everaert is working on anticipating costs.

Vice President Huffman moved to adopt Policy 2.29, Equipment Replacement Reserve. Director McGuire seconded the motion and it carried unanimously.

Approval of 2011 Capital Project Prospectuses: Mr. Everaert noted that the only correction to the revised 2011 spreadsheet distributed before the meeting was to carry over the project cost to the Canal Rehab Fund column for 2011. Additionally, a new budget estimate for Main Canal Poly-Urea Sealing was distributed.

Mr. Everaert proposed replacing the rock lining program started in 2006 with EPDM lining. He discussed the merits of rock for armoring and problems using it for canal sealing. Mr. Everaert discussed roughness coefficients, velocity, pond weed growth, flow capacity, and percolation. Mr. Everaert recommended use of EPDM liner with rock ballast or smooth shotcrete at the bottom to prevent float if the liner were punctured and would allow for use of equipment in the canal. He discussed characteristics of the liner material, installation, patching and the expected life. Mr. Everaert proposed lining as many linear feet as possible with available funds.

Discussion ensued regarding Badger East Canal. Mr. Pearce addressed algae growth in areas that were rock armored. Mr. Everaert suggested using shotcrete over existing rock where there were capacity or seepage issues. He said Cottonwood would be the highest priority section. He discussed planned water-off inspection and selection of areas with highest seepage and greatest risk to population. He said a priority schematic would be created with the goal of lining the whole canal in five years and noted that Mr. McShane had made a full inventory of the Badger East Canal's finishes. Mr. Pearce said the Cottonwood area had the worst pond weed growth this year. Mr. Everaert discussed the use of the Flow Master program for design. Cost comparisons of EPDM, shotcrete and rock were discussed. Mr. Everaert said he expected to receive many bids on the project.

- **Main Canal Poly-Urea Sealing:** Mr. McShane discussed the prospectus for poly-urea sealing from the outlet of Chandler Siphon, 2.1 miles to the end of the concrete section. About one mile of concrete lining was sealed last year using grant funding. He said staff had again applied for a 50% matching-funds grant through the USBR Water Conservation Field Services Program. If the grant was received, \$100,000 would be needed for matching funds. Mr. McShane said staff estimated 41,400 linear feet need to be sealed and the budget estimate is for a total of about \$188,280. He discussed benefits of canal sealing.
- **Highlift Canal Right-of-Way Establishment and Improvements:** Mr. Woodard discussed the project on the west leg of the Highlift Canal ending at 10th Avenue. He said staff proposed having the area professionally surveyed to determine right-of-way boundaries. Thereafter, encroachments would be removed and areas with inadequate embankments would be improved. He said sections of the canal in this area would be evaluated to determine need for maintenance or replacement.

Discussion ensued regarding ownership of encroaching trees. Mr. Woodard assured the Board that staff would contact owners before the survey to notify them that KID will be reestablishing the right-of-way in that area. Discussion continued regarding whether KID would pay for removing encroachments and replacing fence sections to KID's specifications.

- **Badger East Canal EPDM Lining:** Mr. Woodard added to Mr. Everaert's discussion of this project. He reported that the Planning Department had applied for up to \$100,000 of matching-funds grant and staff expected notification in early December.
- **KID Canal/Lateral Lining and Rehabilitation:** Mr. McShane discussed the process staff used to determine which areas require work. He said a series of spreadsheets was created showing all areas of the open canal system, work that was done there and improvements that were made. Projects that were already identified were replacement of the Badger East 16.1 Lateral Pipeline, cleaning and reshaping sections of the Main Canal, and EPDM lining of the Badger East Canal from mile post 8.3 to 10.8 where there is a large elevation change down to high urban density.

Vice President Huffman moved to approve the 2011 Capital Improvement Plan projects as outlined in the attached four project prospectuses. Director McKenzie seconded the motion and it carried unanimously.

2011 Budget Adoption: Mr. Freeman reviewed his budget letter to the Board dated October 14, 2010 (on file). No additional information was added.

At the request of Director McGuire, Mr. Freeman displayed the pages of the Proposed 2011 Budget (on file) on the overhead screen as he reviewed the budget by page.

- Elliott Lake: Budget needs were \$38,143 and revenues were \$34,320, which created the need for an increase.
- Lorayne J: Revenue was expected to be about \$8,000 more than expenditures and the difference would go to their reserves.
- General Fund-Department 00: Mr. Freeman noted that Grant Programming listed Archiving but that was the \$30,000 USBR Grant that was expected based on what KID had last year.
- General Fund-Executive Department: After the Finance Committee review, a line item for Public Document Request expenditures was added to facilitate tracking costs, though individual requests could not be charged for staff time and legal costs.
- General Fund-Finance Department: No changes were made since the Finance Committee review.

Mr. Freeman reported that on November 2nd, an executive of Canfield Insurance would address the Board to correct the record regarding misstatements about the cause of the District's rate increase made at the August 17th Board meeting, which were then reported in very negative newspaper article and television report about the KID.

President Jaksch noted that department totals for 2010 were missing from the materials provided. Discussion ensued. Mr. Freeman said staff would work to improve format.

- General Fund-Engineering Department: Salaries and wages reflected an increase because of an error in 2010 budgeting for that line item.
- General Fund-Operations Department: Reductions were made due to staffing changes, overtime reduction, and pipeline and repair reductions. Outside Contractors category was to be eliminated and such expenses included under Professional Services. Interest on leased equipment was budgeted separately.
- General Fund-Planning Department: The only change, other than a recalculation of benefits, was to increase Professional Services from \$37,500 to \$62,300, to give the Board the option of hiring a consultant for the Conservation Study.
- General Fund-Realty Operations Department: Mr. Freeman said money would be transferred from Realty Reserves to fund operations of this department. Since the Finance Committee's review, fringe benefits and overtime were reduced.
- General Fund-Board: Salary and wages and benefits were increased based on expected totals for 2010.
- Totals for General Fund: Expenditures: \$7,558,156
Revenues: \$7,947,466
Transfers to Reserves: \$389,310
- Page 9: Fund Transfers were presented in a different format.

- Realty Reserves: Revenues from land sales after expenses of \$1,400,000 was included. Commissions on land sold were budgeted at \$75,000. Transfers to general funds would be \$259,555. \$100,000 would be transferred to the Red Mountain Project as a loan.
- Canal Rehab Capital Fund: No changes were made.
- Red Mountain LID Fund: Transfers in and expected expenditures were shown.
- General Capital Projects Fund: The projects identified in the budget letter to the board were listed.

Discussion ensued regarding terms of the loan for the transfer to the Red Mountain LID Fund. Director McGuire said the Realty Reserve Policy requires an identified payback period, affirmative vote of four Directors and memorializing the payback process. Mr. Freeman said that, with those conditions, it would need to be brought back to the board before the transfer and said the loan would be paid back once the LID funds and assessments are levied.

Mr. Freeman confirmed to Director McGuire that the Records Request budget of \$12,000 amounts to about one quarter of an FTE.

Mr. McGuire noted that in 2010 Elliott Lake was spending more that was being brought in. Mr. Freeman said monies for Elliott Lake do not co-mingle with other funds and that there were some reserves, but a rate increase was needed. He said that if the Board approves the increase, information would be sent to those customers regarding the change.

President Jaksch noted that on page 10 "Lowlift" should be changed to "Highlift."

Vice President Huffman moved to adopt the 2011 budget in the amount of \$7,947,466. Director McGuire seconded the motion and it carried unanimously.

President Jaksch called a short break at 10:22 a.m. and the meeting reconvened at 10:32 a.m.

RESOLUTIONS:

Resolution 2010-26 Sole Source - Aquatic Weed Control Program: Mr. Pearce presented the proposed resolution. He noted that SePRO was the sole source manufacturer of the chemicals used in KID's off-season weed control. He said KID was provided a performance guarantee through direct purchase from the manufacturer. He noted that through secondary suppliers, pricing is national and there would be no additional savings. President Jaksch called attention to a clerical error in the contract. Mr. Iller said he was provided the contract on Friday but had not yet reviewed the document. Mr. Pearce confirmed that KID personnel would apply the chemicals according to SePRO instructions.

Director McKenzie moved to approve Resolution 2010-26 waiving competitive bidding, authorizing the use of a sole source contractor and authorizing the District Manager to execute a contract with the SePRO Corporation for the 2010-2011 Aquatic Weed Control Program subject to Mr. Iller's review and the correction discussed. Director McGuire seconded the motion and it carried unanimously.

Resolution 2010-27 Water Entitlement Relegation Removing 2011 Assessment: Mr. Revell presented the proposed resolution. He noted that this resolution would remove the participating parcels from the 2011 assessment and discussed follow-up steps. Discussion ensued.

Vice President Huffman moved to adopt Resolution 2010-27 (Water Entitlement Transfer Relegation). Director McKenzie seconded the motion and it carried unanimously.

Resolution 2010-28 Water Entitlement Relegation Adding 2011 Assessment: Mr. Revell presented the proposed resolution and said that an updated resolution was provided at the meeting. He noted that due to Badger East capacity limitations two requests were denied in this cycle and said there will be follow-up conversations with that property owner if circumstances change. Discussion ensued.

Director McGuire moved to adopt Resolution 2010-28 (Water Entitlement Transfer Allocation). Vice President Huffman seconded the motion and it carried unanimously.

PUBLIC COMMENTS:

Dale Walter indicated on the sign-in sheet that he wished to address the board, but he left the meeting prior to the public comment period.

James Wade, residing at 1813 S. Rainier Place, addressed the Board regarding a letter he received from Mr. Freeman. He said what he said at the last Board meeting substantiated that there are approximately 28,700 acres that were five acres or less counting all the non-irrigated acres, the drylands plus the people that are charged for water. He said he did not realize KID did not have a listing of how many acres KID, BLM and DNR have in the District. Mr. Wade said he was on Social Security and did not get a pay raise and would not next year but medical went up. He said that, as a public entity, KID kept spending. He said seniors did not appreciate KID getting big salary increases and increased in medical.

President Jaksch said if Mr. Wade's wife was also on Social Security they got \$500 in 2009.

Mr. Freeman clarified that in his letter to Mr. Wade he did not state that KID did not have information; he directed Mr. Wade to the county for the report as KID did not have an existing report it could provide without quite a bit of work. Mr. Freeman said his understanding was that KID must produce records not create records. Mr. Iller confirmed that Mr. Freeman was correct.

Mr. Freeman noted that the 3% salary increase was for budgeting purposes only and the salary survey was still being done. He noted that assessments were not going up so there was there was no increase to rate payers except for the Canal Rehab charge.

STAFF REPORTS:

Finance Manager: Ms. Storms reported:

- The Finance Committee reviewed the first draft of the purchase policy which would be brought to the Board in November. This policy was responsive to the LeMaster Daniel report.
- The assessment list for 2011 was near completion. She requested early notification from the Board if changes suggested by the Water Rate Advisory Committee were made to allow time to modify the assessment roll.
- Ms. Storms noted that in 2009 the Board approved a resolution to change the method of accounting to cash. She discussed cash reporting through accrual accounting, as well as uses and characteristics of accrual and cash accounting. She reported that Angela Richardson of LeMaster Daniels said it makes sense to go back to cash method if the right reserves are in place because depreciation will disappear. She said if the Board was in agreement she would like to move forward with the resolution and that 2010 financial statement would be converted to cash basis so there would be comparatives in 2011. Discussion ensued. The Board agreed to do so.

Engineering/Operations Manager: Mr. Everaert reported:

- KID received six SCADA collection platforms from Sutron and was working with State Labor and Industries to have a certified installation. The other six stations were shipped Friday.
- Water was turned off Monday, October 18th and he expected the system to be totally de-watered in a day or so after which a total facility inspection would be performed per the capital improvement plan.
- He said staff will continue to work on interpretation of contract for Chandler Pumping Plant reserve funds and replacement and the District and USBR responsibility. President Jaksch asked to discuss this at the afternoon Operations and Engineering Committee meeting.
- Mr. Everaert said engineering staff would be creating documents for winter work.

District Manager: Mr. Freeman reported:

- WSWRA annual conference would be held on December 3rd in Spokane and invited Board Members to attend.
- The Southridge planning meeting with the city and the USBR would be held October 20th and there would be a staff meeting before it.
- The Salary Survey kickoff meeting would be held October 20th and the Union would be at the table for determining comparatives. Discussion ensued.
- The Water Off meeting would be held November 4th at 11:30 a.m.

Planning Manager: No report.

WORKSHOP:

Project Tracking: Mr. Freeman reviewed updates to tracked projects including:

- Settlement Agreement
- Red Mountain project scope was being prepared by Mr. Everaert to bring to the Board regarding whether to complete design in-house to reduce costs.
- Preliminary work for the Red Mountain Cultural Resource Survey would be started by Mr. Revell.
- Items that no longer applied were struck from the Water Right Management page.
- Mr. Everaert was supervising the consultant for the Feasibility Study to be sure they meet the December 2010 deadline.
- Discussions were needed regarding whether go through the public process and apply for funds for a fish screen at Amon Basin. Discussion ensued. President Jaksch said the Operations and Engineering Committee would discuss the issue.
- Office staff would be next to receive safety manual training.
- The Finance internal control manual would be handed from Ms. Richardson to Ms. Storms to be put in place.
- Sub-division standards were being drafted.
- The Amon House buyer wanted out so the USBR was working on the process.
- Director McGuire asked about the five-year capital planning report. Mr. Freeman said it would come back before the Board in May or June.

President Jaksch called a short break at 11:06 a.m.

At 11:15 a.m., the Board went into executive session for one hour to discuss with legal counsel litigation per RCW 42.30.110(1)(i)(iii), and to consider of the minimum price at which real estate will be offered for lease or purchase per RCW 42.30.110(1)(c).

Executive session was extended for thirty minutes at 11:15 a.m.

At 11:46 a.m., the Board returned to open session.

President Jaksch announced there were two items of business to be addressed.

Potential Conflict of Interest: Mr. Freeman reported that Maverick Incorporated made an offer on KID property. They indicated they wish to use the Stoel Rives law firm that KID uses for other matters. Mr. Freeman said the Board could grant a waiver for the specific instance if they found there was no conflict of interest. Discussion ensued. Mr. Iller said the Board's consideration should be based on whether or not Stoel Rives prior representation of KID on the urban growth boundary would provide any benefit or advantage to Maverick Inc. in purchase of property. If not, the Board should waive the potential conflict, and if so, not waive the potential conflict. He said he understood these to be two completely separate issues. Discussion continued. **President Jaksch moved to waive the potential conflict of interest of Stoel Rives Law Firm as to Stoel Rives representation of Maverick Inc. Director McKenzie seconded the motion and it carried unanimously.**

Application of the Carriage Charge from Columbia Irrigation District (CID): Mr. Freeman reported this was discussed by the Water Rate Advisory Committee (WRAC). Historically this charge was applied to all accounts. Alternately the charge would only be applied to the PSAs directly benefiting from the CID water carriage. He said staff was working on the assessment and was seeking direction from the Board.

Discussion ensued. Director McGuire said the WRAC would additionally recommend that those four PSAs not pay the Canal Rehab Fund fee for 2011. Director McKenzie said this would be counter to the intent of the tier rate system and asked staff to relay message to WRAC not to lose sight of purpose of tier rate. Director McGuire discussed WRAC recommendations that would be made regarding eight PSAs not paying the Canal Rehab fee. President Jaksch said he was concerned by precedent being set. WRAC meeting schedules were discussed relative to the need for direction to staff. Revenue impacts were discussed. Mr. Freeman said the Finance staff requested guidance on the carriage fee specifically. Means of levying for unique capital costs of those PSA were discussed. Discussion continued. The possibility of waiting until 2012 was discussed.

President Jaksch advocated use of a holistic approach and consideration of precedent being set. Vice President Huffman asked about effect on the budget that was just set. Mr. Freeman said a budget amendment could be brought to the Board. Mr. Iller said staff asked direction on how to prepare the initial assessment roll, and that before or during the board of equalization the Board could adjust the assessment roll.

Director McGuire said a lot of issues were in play including a possible different rate structure in 2012. He said it would be to KID's advantage to identify the true costs of CID carriage. Discussion continued. Director McGuire recommended putting off discussion for a week to gather more information so the assessment roll would be correct when presented to the Board in November. Discussion ensued regarding which assessment years for which the WRAC would make recommendations.

Mr. Revell arrived at the meeting and said the Committee would make five recommendations to take effect in 2011 and seven parts to be studied in 2011 prior to setting the 2012 assessment. He addressed the carriage fee at Director McGuire's request. Director McGuire recommended holding a special meeting the following week to make a recommendation on direction to staff. Mr. Revell offered to give a one page summary of committee's recommendation to the Board. Discussion continued regarding a holistic or piecemeal approach. Scheduling a special meeting was discussed. A special meeting was called for Monday, October 25th at 9:00 am. Mr. Iller recommended that the agenda include at least a potential executive session to discuss with legal counsel potential litigation or the legal risks of a proposed action.

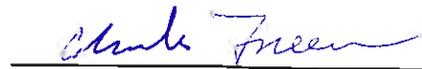
Vice President Huffman moved to adjourn at 12:12 p.m. Director McGuire seconded the motion and it carried unanimously.

Attest:

Witness:



John Jaksch, Board President



Charles Freeman, Secretary/Manager

Prepared by Doris Rakowski