



Minutes

Workshop Special Meeting of the KID Board of Directors
Carl W. Petersen Board Room
Saturday, March 19, 2011, 9:00 a.m.

President McKenzie called the meeting to order at 9:02 a.m. Mr. Freeman called roll.

Directors Present:

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

Staff Present:

Charles Freeman, District Manager
Ed Everaert, Engineering/Operations Manager
Colleen Storms, Comptroller/Treasurer
Scott Revell, Planning Manager
Judy Smith, Administrative Contract Specialist
Doris Rakowski, Executive Assistant

Other Persons Present:

Darryll Olsen, Consultant and Meeting Facilitator
Duane Unland, Consultant
Fran Forgette, Legal Counsel
Tim Berk, Water Rate Advisory Committee Member
Gary Hall, Water Rate Advisory Committee Member

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

RESOLUTIONS:

Resolution 2011-13, Bretz Road LID Preliminary Assessment Roll: Mr. Freeman reported that a preliminary assessment roll was unnecessary. No action was taken.

WORKSHOP:

Strategic Financial and Economic Alternatives Review: Mr. Freeman introduced Mr. Olsen, who discussed the meeting format and said the objective was discussion, not decisions.

Mr. Forgette reviewed the appropriate use of executive sessions.

Discussion: What is the primary function of KID?

Mr. Forgette discussed KID's primary objective and role, and offered the issues of irrigation and potable water delivery, real estate, financial management, and environmental stewardship for consideration. Discussion ensued.

Ideas mentioned included:

- Delivery of irrigation water, efficiently, economically, and safely; and other functions are avenues of accomplishing the first goal
- Basing decisions regarding the potable water systems on economics and whether potable water delivery is an appropriate activity for KID if it does not enhance the ability to deliver irrigation water
- Managing water resources with the goal of maximum efficiency for current and future users
- Importance of environmental stewardship due to limited resources and community growth
- Whether KID has a duty to protect the life style made possible by urban irrigation or to direct resources to a higher value

- Varying levels of service desired by different customers versus the goal of providing the same level of service to all customer categories
- The challenge of transitioning from agricultural to urban use
- Potential of linear parks to enhance community lifestyle
- The need for different approaches for water flow for agricultural and urban areas, and the possible need to meter use
- Planning for the possibility of future water shortages
- Working with community and environmental groups on their expectations for water and educating people regarding scarcity of water resources
- Whether to use real estate resources for rate subsidies or capital expenditures
- Balancing management of real estate monies for reserves for emergencies, future obligations, or improvements
- Obtaining the services of a financial advisor
- Re-evaluation of real estate resources management if new legislation allows KID to rent or lease property
- Protecting KID's water right
- Operating and maintaining irrigation infrastructure to efficiently deliver irrigation water
- Maximizing beneficial use of limited resources

Mr. Olsen summarized that safe, efficient, and economic delivery was the primary function of KID and that the District must consider how to best utilize resources to do that.

Discussion of Realty Management: What Should We Do with Surplus Lands?

Mr. Revell reviewed the District's inventory of approximately 1,600 acre of real estate in Kennewick, Richland, Red Mountain, Finley, Kiona and Badger Canyon. He said some of these properties had already been master planned.

Mr. Freeman discussed the District's passive marketing plan consisting of minimal signage and answering the phone. He touched on potential legislation regarding long-term leasing and the possibility of land trades with other agencies. He mentioned the strategy of encumbering funds received from sales to protect the resource for future uses.

Mr. Olsen asked the Board to discuss the use of these monies and the instruments to accomplish the District's goals.

Goals discussed included:

- Responsible stewardship and safely maintaining infrastructure
- Considering the long-term in regards to management of real estate and financial resources
- Careful use of revenue from surplus real estate, as once it is sold, cash is easily spent
- Balancing immediate needs for capital improvement, with funding of reserves and future canal improvement needs
- Considering future needs and determining appropriate levels of reserves
- Managing land sales, rentals, leases, and contract sales for long term income to support the future needs of the District.
- Giving the District options with a flexible approach to real estate management

Strategies discussed included:

- Evaluating parcels individually regarding whether sale or lease would be most beneficial
- Consideration of land swaps, approached carefully to protect District interests
- Hiring a local realtor to market small parcels on the MLS with cost covered by each sale.
- Developing a market plan strategy

- Considering economic climate and whether asset values would rise over time
- If funds are not immediately needed, consider holding real estate assets in current form
- Accommodating needs of different buyers
- Bring water to larger parcels
- Weigh timing action at Red Mountain with when water will be available
- Consider costs of maintaining ownership of the pieces of property

Mr. Forgette encouraged having a solid mechanism for restoration of reserves in KID's policies to ensure that resources were available for response to emergencies. He discussed the unique, irreplaceable nature of the KID's real estate assets and advised appropriate long-term significance to the asset. He asked the Board to consider whether it was to be consumed to address large goals of the District or to recreate the District for future water users.

Mr. Freeman summarized that District operations should stand on its own and not depend upon realty reserves to maintain the status quo. Realty reserves may be used for the betterment of future generations or in cases of extreme emergency. He said structure for reserves was put in place following this budget cycle. He said reserves should be used for the betterment of future generations.

Discussion of Planning and Budgeting for Capital Improvements

Ideas discussed included:

- Setting priorities and a time line for sales of land (referred to the Realty Committee)
- Commercial land is sold by square foot and agricultural land by acre and should be marketed in different ways
- Consider details of leasing versus land contracts
- Reserves as a buffer between ratepayers and what the district does, including responding to operational emergencies and working on future improvements
- Prudent management of the finite resource of real estate, and considering holding some land assets
- KID's reserve policy and canal break policy in regards borrowing from reserves and obligation of the operation side of the District to pay back reserves; educational point that the rate payers will pay for the canal breaks in the following year
- Rates were previously subsidized by reserves
- Clarifying policy that reserve monies used for capital projects must be repaid in the same way that emergencies must be repaid (Mr. Forgette to report to Mr. Freeman regarding possible policy deficiencies)
- Selling property slowly and steadily to maintain buffer for ratepayers from large expenses
- Reserves not used to pay for annual capital improvements, but may be used for matching funds for large projects
- Ms. Storms reviewed the capital budget break down which was provided to the Board
- Capital improvements may reduce how often emergency reserves are needed
- Consideration of holding costs and costs for bring water to land while trying to improve overall value of property

Mr. Olsen called a ten minute break at 10:30 a.m. and the meeting reconvened at 10:45 am

Discussion of Capital Improvements Approach to System:

Mr. Olsen reviewed water rights changes over the years, including the 82 cfs water right and the Edison pump exchange. He said he expected the Washington Department of Ecology (Ecology) would agree to issue a water right for 8,000 acre feet (consumptive use) from the Columbia River. He said Yakima River water becomes self mitigating for the new water right out of the Columbia

River. The Yakima River water right is subject pro-rationing in water short years, so some new water from the Columbia River would offset pro-rationing and make the District's water supply whole in most pro-rationed years. In the future, KID could expect a permit for withdrawal and a little new water, but not the large amount (22,000 AF) originally promised.

Mr. Everaert discussed the capital improvement list from the feasibility study. Topics included in-line and off-line reservoir storage, canal lining, SCADA, right-of-way management and encroachment abatement. He discussed a water measurement program with portable meters measuring at 90 boxes and permanent measurement devices and said it would take a while to determine what water measurement program should be, and that inline, off line or not at all for water storage must be considered. It was suggested that efficient operation might be the most economically feasible option. Return on investment in terms of efficiency and safety was discussed.

It was noted that if YRBWEP money came in it would be incremental. Mr. Freeman said that if KID were to receive \$34.5 million, KID's share would be \$17.5 million.

Ms. Storms said KID must identify the reserves level the Board wants to maintain and consider that to do if we drop below the target amount. She discussed the amount funded from assessments, appropriate uses and interest rates. She noted that if the money was extended to LIDs it would not be available for other uses. Short term loans versus long term loans were discussed. She noted that if KID went into debt and people had prepaid their loans the revenue stream would be gone. Grants, subsidies and bonded debt were discussed, as were the expenses of bonding, and bank and government lending rates and conditions. Ms. Storms said a financial consultant could advise whether it would help to get a bond rating.

Mr. Olsen asked if there were a debt of \$17.5 million for capital improvements, what would be the instrument to pay.

President McKenzie said he was not familiar with funding options and needed to know what kind of effort and expenses would be entailed in the financing options.

Director Rathbun also said he did not know much about public agency funding processes.

Director Jaksch agreed all of the above and said infrastructure improvements would save water. He noted that if KID used private financing, KID would keep saved water, but if publicly funded, the District would only keep part of the saved water. He said that given future demands on the District, if giving up two-thirds of water saved caused problems, the District may want to use private financing. He asked about bank loans secured with property holdings.

Director McGuire said he looks forward to hiring a financial advisor to explain the options. He questioned whether if water conservation were privately financed if KID would still have to give back water, and if so how it differed from public financing options.

Director Jaksch discussed division of conserved water and said a water balance study was needed, which considered new lands.

Director McGuire reiterated the need for a financial advisor.

Mr. Freeman said the lining project was for safety concerns, not conservation. He said a legal opinion was needed on whether incremental water savings would have to be given up.

Mr. Olsen asked what preferences were for bonding, short or long term loans, or land sales.

Vice President Huffman said he preferred to leave all options on the table at this time due to instability of economic climate. He said it was not possible to project ten years at this time.

Mr. Freeman said conservation projects in the feasibility study would not save operational costs, but that pump consolidations would. He suggested that the Board should decide at some point whether the Edison pump exchange needed to be dropped. He said he did not see labor cost savings in the plan, and expressed concern about debt service. Mr. Freeman said bonds were a last resort due to the cost of the money. He noted no specific source was identified yet for the District's matching funds. Mr. Freeman recommended hiring a financial advisor and said he gave the Finance Committee a rough draft of an RFP for one. He said a call for a bond rating was not inexpensive and that KID had never been rated, though a financial advisor could help determine whether KID even needed a bond rating. Ms. Storms confirmed that a paid outside audit would probably work for a third clean audit.

Mr. Olsen asked about steps ahead. If the new permit came in the near term, a chunk of outside financing would be needed. On other capital improvements, KID could bring in a financial advisor and address the question of bonding. He said the question could be taken to the Water Rate Advisory Committee (WRAC) if it would affect rates.

Director McGuire suggested that after the new rate structure was developed, forming a planning advisory committee in place of WRAC would be considered.

Director Jaksch restated the need for a water balance study.

Mr. Revell said the line of thinking on crafting of the Conservation Plan was that if a project needed to be done and could be construed as conservation, it would be advantageous to the District to seek outside funding.

Mr. Freeman said it was expensive to conserve water. He noted that KID did not have the money for matching funds without a burden on the ratepayer. He suggested that savings through pump consolidation, however, would help pay for that sort of project.

Director Jaksch said technical improvements have potential savings.

Vice President Huffman addressed usage of water. He said water meters could become necessary and discussed charging for excess water or cutting off supply.

Mr. Freeman said the Bonneville Power Administration or the Benton Power Administration had grants and suggested investigating opportunities for power savings.

Director Jaksch said the District may need to re-order investment priorities based on answers and asked to discuss the issue at the next Operations & Engineering Committee meeting.

Mr. Olsen restated the instructions to staff to pursue financial planning advice and a water balance study.

Discussion of Red Mountain Planning, Development and Expectations Regarding Payment Responsibilities:

Mr. Freeman clarified that the planned executive session was for discussion with legal counsel of legal risks of a proposed action regarding the LID, project costs, and debt service.

Mr. Revell referred to the preliminary draft report titled "Red Mountain Water Allotments Outside of the AVA" and reviewed details of the Red Mountain South LID listed in that report. He discussed the funding agreement which the District had been processing and the interest rate from Ecology.

Ms. Storms discussed financing alternatives A through D listed on the handout titled "Effects of Different Debt Options." She said the opportunity for reduced debt service from Ecology would save money and was a preferred alternative. She noted that the LID would be charged the same interest rate (.5%) that KID paid to Ecology. She noted that the lower rate significantly lowered the yearly debt service. She discussed risk relative to funding options.

Mr. Olsen said that KID could probably count on the first \$5 million from Ecology. He said options were retiring debt at a lower rate in a shorter period or that the LID might prefer a smaller payment for the same time period. He said constraints from Ecology bound the options.

Mr. Revell said topics discussed in the Realty Committee included a request from an abutting owner, and water entitlements on KID properties outside the AVA. He said the Realty Committee was interested in examining land values inside and outside AVA and whether to assign water rights to other parcels of KID land.

Mr. Freeman clarified some of the calculations on debt costs.

Vice President Huffman was please with the lower financing cost. He revisited the idea that KID should have in reserves at least two years worth of assessments to cover costs.

Director McGuire said it was new information that there were people interested in water rights from kid land and discussed the reduced value of KID land without a water right. He said regarding borrowing from Ecology and putting water in trust, he was not aware of a vehicle for removing from water from trust.

Mr. Revell said there would be an additional agreement later to address trust water, and that it was in the settlement agreement. He said the District did not want to find they could not get water out of trust.

Director McGuire discussed time constraints for decisions on this matter.

Mr. Freeman said it would be possible to get out of the project and return the money if the process broke down.

Mr. Revell said Red Mountain would be pro-ratable in the same manner as the rest KID. Director Jaksch asked about the benefit of the sale of water from one KID property to another. He noted that \$5 million, \$10 million would be saved for investment in infrastructure. Mr. Freeman added that those infrastructure investments would need to conserve water and be approved by Ecology.

Director Jaksch noted that the District would gain a third of the saved water and Ecology would gain two-thirds, and as the amount saved was previously lost, everyone benefited.

In response to a question from Director Rathbun, Mr. Olsen said the Board would need to decide whether to keep the 25-year loan structure with the lower interest rate or keep the same cost and shorten the term.

Director Jaksch said the desire of the LID participants shaped the terms of LID formation.

President McKenzie clarified that KID had two roles in the LID, as KID was also a participant. He said that use of the terms "our" or "we" could represent the District or the LID and asked that it be made clear in any conversation. President McKenzie noted that KID had property where holding costs had changed. He said though some of the loan repayment would be available to the District, there were still real dollars that would have to be paid. He said further information was needed regarding possible reassignment of KID waters between properties.

Mr. Forgette said, as the Board determines later what to do with the Red Mountain property, if it were sold or leased, the purchaser or leaser would assume the property's LID costs.

Vice President Huffman said he was glad to see the lower rate, but asked to leave options for payment open. He said this was a good project and that there was a lot of interest in Red Mountain, and not just locally.

Mr. Olsen discussed trust agreements and getting commitment from Ecology for the full \$10 million. He asked about putting money in escrow. He advised keeping pressure on Ecology for a commitment. He said that KID had a legitimate financing issue in that it was a major difficulty for financial planning to ask other government entity to commit in a way that it cannot be pulled.

Discussion ensued regarding who should be contacted at Ecology.

President McKenzie called a break at 12:10 p.m. and open session resumed at 12:50 p.m.

The Board announced they would meet in executive session for 30 to 60 minutes to discuss with legal counsel legal risks of a proposed action regarding Red Mountain per RCW 42.30.110(1)(i)(iii). Executive session was extended for 30 minutes at 1:45 p.m.

A break was called at 2:10 p.m., and the meeting resumed in open session at 2:17 p.m.

PSA(Pressurized Service Areas) and Comprehensive Planning Decisions - Limitations to KID Future Service Additions:

Mr. Forgette said KID had an obligation to serve water users in the District and provide water as efficiently as possible. He presented the question of whether KID should serve to each lot or revert to serving the lines to neighborhoods and have home owners associations or neighborhood contract service privately.

Mr. Everaert said with Southridge and Red Mountain coming on line the District must be careful not to exceed the area it can serve. He said the District had no ability to provide service in private line areas (PLAs), as much as we might like to. He said staff was working on a map. He noted that private line areas could become a trespass and liability issue if KID did work in those areas. He reported that in new PSAs, KID now required meters.

Mr. Forgette said it was a public education challenge to make sure customers knew where KID's responsibility stopped and theirs started.

Mr. Freeman discussed new system costs. He said KID could not charge impact fees. He asked if KID could require lining because of increased risk to humanity below the canal. He said any such requirement must be made on the pre-plat. He discussed said that in town, where there was a great deal of property ownership turnover, the new customers often did not understand when KID could not help them. He noted that the requirements for construction of PSAs and PLAs were the same.

Director Jaksch said the Board needed to make a decision regarding whether the District would accept new PSAs. He said that as more PSAs were added, additional staff was needed and there was more impact on customer service. He asked if it would be a savings to the rate payer to privatized service and whether KID should consider going back to being an irrigation company first.

Mr. Freeman said staff learned from the USBR that KID cannot transfer operations and maintenance to another entity on existing transferred facilities.

Director Rathbun said the WRAC was considering this issue. He said KID should continue to look at the PSA system. Circumstances have changed and KID is not what it once was. He asked if it was worth the cost.

President McKenzie said the reason for the questions was to consider how KID managed growth. He said it was necessary to be sure the District could handle it. He noted that the Board had not given directions about what expectations were. He asked how the Board would plan and give direction on where the District wanted to be.

Vice President Huffman said that as the District moved to more PSAs costs for insurance and labor would rise. He said there was a point where people would object to rates. He said that, years ago, LIDs were run by their residents and there was no collection agency. He asked where the responsibility was now.

Director McGuire said technology could be used to monitor pumps without additional staffing. He said KID costs were disproportionately high compared to municipal water systems and discussed contracting repairs if staff were reduced with technology. He said the rate study was needed to make decisions.

Vice President Huffman said the Board needed public input on whether more service with higher rates or less KID service and lower rates were desirable.

Mr. Freeman said staff needed to work on a staffing model. He said that regarding Southridge, KID needed to consider staffing levels. He said unique issues must be identified and addressed. He discussed aquatic weed management. He said he was working through Operations and Engineering on levels of service and a staffing model. He reported that KID had ten pre-plats that had been approved and could not be stopped. He said that KID's Standards protect the District.

Mr. Revell discussed reasons staffing needed to be considered case by case.

Mr. Freeman said Engineering needed to be sure to consider staffing needs and seek review by all departments. He said that developers should pay for development and not pass costs on to other rate payers. He noted that there was a means for developers to appeal to the Board if they disagreed with staff.

Mr. Revell gave a quick overview of process for LID formation.

Director Jaksch said additional LIDs result in a need for additional staff and put a burden on existing infrastructure. He said KID was not obligated to serve lands outside KID boundaries.

Mr. Freeman Southridge was within the historical boundaries and must be served. He added that the 2007 annexed lands may need to be served.

Director Jaksch expressed concern that the District see that full cost and increased risks caused by development were paid by the developers.

In response to a question from Mr. Olsen, Director Jaksch said he would like to see a vendor service model. Director Jaksch asked if the KID wanted to continue doing business in the future it was now.

Mr. Freeman said he met with OMI and asked if KID could transfer its duty to a third party. The answer was no. Mr. Freeman said this was a different question.

Mr. Everaert not many irrigation districts in the western states had been successful in turning over parts of their systems. If associated with a dam, storage facility or power generation, USBR would insist on keeping ownership.

Mr. Freeman and Mr. Revell confirmed to Director Jaksch that staff had gotten the information they needed.

Tim Berk advised that regarding restricting PLAs the District avoid creation of isolated landlocked parcels. He suggested that the District could add a requirement that developers get their own financing on LIDs.

Gary Hall said the meeting was very informative for understanding possible uses of revenue from real estate sales.

Director McGuire noted that drought mitigation and acquisition of additional water rights were not discussed.

Mr. Revell said providing irrigation water was job number one, so insuring water supply was critical. He said water right management was crucial to insuring water supply. He said policy was needed for how KID's portion of conserved water would be put to use.

Director Jaksch suggest considering the preferred use for water rights from Lorayne J and Elliot Lake.

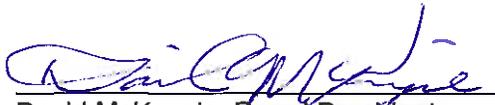
President McKenzie thanked Mr. Olsen for facilitating a very informative meeting. He said input should be applied to policies and Board direction.

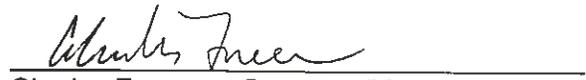
Vice President Huffman said KID was looking further to the future than it had before. He said it was commendable for the group to give new boards insight and thanked staff for participation.

Vice President Huffman moved to adjourn at 3:03 p.m. Director Jaksch seconded the motion and it carried unanimously.

Attest:

Witness:


David McKenzie, Board President


Charles Freeman, Secretary/Manager

Prepared by Doris Rakowski