



Minutes

KID Board of Directors Special Meeting
At the Terra Blanca Winery
34715 North Demoss Road
Benton City, WA 99320
Monday, August 29, 2011, 6:00 p.m.

President McKenzie called the meeting to order at 6:05 p.m. Mr. Freeman called roll.

Directors Present:

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

Staff Present:

Charles Freeman, District Manager
Scott Revell, Planning Manager
Colleen Storms, Comptroller/Treasurer
Ed Everaert, Engineering/Operations Manager
Judy Smith, Administrative Contracts Specialist
Brad Crawford, Purch., Inv. & Technology Coordinator
Doris Rakowski, Executive Assistant

Other Persons Present:

Paul Cross, RH2 Engineering
Brian Iller, District Legal Counsel

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

President McKenzie welcomed the guests and introduced the Board Members. He said that progress had been made on the project and that the Board wanted to provide an update to LID participants and receive their feedback.

PRESENTATIONS: PowerPoint presentation materials are on file.

History of the Red Mountain South LID Project: Mr. Revell reviewed the project cost estimates which were made in 2009 when the LID was approved by the KID Board of Directors. He reported several major steps which had taken place since LID approval including:

- The Acquavella Settlement Agreement Amendment was executed.
- The Department of Ecology agreed to provide a \$10 million no interest loan to the LID and the KID. Mr. Revell noted that the first \$5 million was funded in the 2012 budget, and that there had been verbal assurances from Department of Ecology staff regarding commitment to the project, but the second half was still uncertain due to budget uncertainty for 2013.
- The Water Right Change application was filed in October 2010 and the Notice of Application was published in July 2011.
- The Department of Ecology and KID entered into a co-lead agreement to coordinate the environmental review process.
- The Cultural Resource Study was completed at the pump station site and found no obstacles to the project.

Financial Report: Ms. Storms reviewed the original loans terms for the LID and discussed the loan negotiated with the Department of Ecology. She noted that half of the principal repayment would go to a special KID fund for future conservation projects. Loan repayment would start six months following completion of construction or on December 31, 2015, whichever was later.

Ms. Storms reviewed the approved 2009 development budget estimate and discussed how the original engineer's estimate was cost indexed to April 2011, 2012, and 2013. She compared the revised estimate to the original budget. The LID was approved in 2009 with a project cost estimate of \$12,551,740 and, cost indexed to April 2013, the total was \$14,893,046.

Ms. Storms compared costs from the 2009 budget with 2011 cost estimates derived from cost indexing and financing changes. She reported changes to weighted cost of capital, capital infrastructure cost per acre, annual debt payment per acre and annual operations, maintenance and power costs per acre. The total annual per irrigated acre cost changed from \$729.25 to \$679.27.

Ms. Storms reported that costs of approximately \$250,000 had been incurred by the LID to date and that they included costs for staff time, engineering, environmental permitting work started, and legal consultants. She offered to provide further information if requested.

PUBLIC COMMENT:

- **Tom Edwards, 29743 E Ambassador, asked whether construction costs could be paid up front and how access to KID irrigation would affect people with their own ground water rights. He noted that 1.5 acre feet of water would not be enough for some crops other than grapes.**

Mr. Revell said that costs could be paid up front and suggested that questions about landowners' existing water rights be directed to the Department of Ecology. He said the Ground Water Trust Program might be an option. Mr. Revell indicated the posters in the back of the room depicting the preliminary assessment roll and said that attendees could confirm the number of acres for which they had signed up when the LID was formed.

- **Keith Pilgrim, of Terra Blanca at 34715 North Demoss Road, commented that the timing for the project was good due to a relatively attractive construction climate. He encouraged the Board to get the project under construction as soon as possible. He noted that the wine grape market was still strong.**

- **Jim Holmes, 4361 King Drive, asked whether the purchase of property for habitat mitigation was still part of the project.**

Mr. Revell said that the Shrub Steppe Mitigation Agreement with the Washington Department of Fish and Wildlife would commit the LID participants to \$500,000 to mitigate conversion of shrub steppe to agriculture and that the Department of Ecology would provide another \$500,000 for the purchase of land elsewhere, possibly near Rattlesnake Mountain. He reported that the agreement would be completed in the coming weeks.

- **Scott Williams, of Kiona Vineyards at 44612 N Sunset Road, asked why the annual operations, maintenance and power cost had increased so much and whether it was expected to continue to increase at the same rate.**

Ms. Storms said that the new cost estimate was based on the rate and cost of service study which the Board had commissioned and was considering applying district-wide. She said the cost was based on the type of infrastructure used by each parcel. Ms. Storms noted that the original cost estimate included only maintenance and power, without any other factors. She said that the new rate was expected to cover District expenses for several years without large increases.

- **Tom Hedges, at 53511 N Sunset Road PR NE, reported that the local conditions last year were excellent for wine grapes. He said demand for Red Mountain grapes was increasing. Mr. Hedges expressed concern about water quality of local wells and said it would be best for the LID project to be completed as soon as possible. He asked how the interest rate in the current cost estimate was determined.**

Ms. Storms reported that the State had contractually committed to the \$10 million grant for the Red Mountain project, but that it was subject to the State budget and no one yet knew what would happen in regards to the 2013 state budget. She said that the 1.643% weighted cost of capital was a blended rate assuming five percent interest on the portion of the project financed by other means and \$10 million financed at 0% interest with the State.

- **Kevin McGlynn, of Red Mountain Ridgeline and residing in Seattle, asked whether the Board of Directors had plans for KID's property on Red Mountain.**
President McKenzie said that KID's land holdings were for sale or lease and that KID did not plan to develop the land. He referred persons interested in the purchase or lease of KID property to Real Estate Administrator Judy Smith.
- **Jeff Brown, 2630 Albemarle Court, asked for clarification of the increased capital infrastructure cost. He further commented that he was surprised by the increase since many large construction projects were being completed at lower than expected costs.**
Ms. Storms said that the 2009 estimate did not plan for this time frame, so the newer estimate included an inflation factor. She said that the 30% engineering design would more accurately pin down expected costs. Ms. Storms explained that because the original estimate was not produced by in-depth engineering, the conservative approach was taken by cost-indexing the original number. She agreed that bids have been favorable in government jobs in the recent couple of years, but also, since KID is a governmental entity, prevailing wages must be paid for the project.
- **Juergen Rasmussen, 1761 George Washington Way, asked about the "donut hole" KID exclusion zone.**
Mr. Revell indicated an area at the top of the mountain on the map and said that the area was excluded from the District in the 1950s. He showed the area which was annexed in 2007 and reported that KID was working with the U.S. Bureau of Reclamation to complete the inclusion process. He said about one-third of the area would be irrigated.

PRESENTATIONS:

RH2 Company Profile: Mr. Everaert introduced Paul Cross of RH2 Engineering. He reported that RH2 was a local firm, chosen for the 30% engineering design by the KID selection committee from respondents to the request for qualifications. Mr. Everaert said that the 30% design would provide additional information and a better cost estimate than the original appraisal level estimate. He noted that the KID Board had approved contracting with the same firm for the final design following completion of the 30% design if the LID participants and the KID Board choose to move forward.

Mr. Cross thanked the KID Board and staff for selecting RH2 Engineering. He said that RH2 had six offices in Washington including one in Richland and a staff which included engineers, scientists and planners. He reported that about 20 staff members were currently working on irrigation related projects.

Mr. Cross said that work on various projects over the last three years allowed RH2 to develop an outstanding database of costs for this type of project. He said RH2 provided detailed design work and the firm was experienced with design and construction management of large projects including pumps and pipelines.

Mr. Cross said RH2 provided measurable results and displayed a table showing recent project budgets versus actual costs, incidence of change orders, and timeliness of completion. He discussed RH2's Sunnyside Division's work last winter, which was on time and under budget.

He summarized the firm's advantages for this project as:

- Experience with cost effective designs
- Interest in finding collaborative design solutions
- Irrigation district expertise
- Irrigation design and construction management experience
- Local Tri-Cities firm

Next Steps: Mr. Freeman said his impression from the meeting attendees was that they wanted the project to move forward. He reported that the KID was requesting statements of qualifications from financial advisors; as such services would be useful to find the best way to fill the \$5 million, or potentially larger, funding gap.

Mr. Freeman requested that any written comments which participants would like to submit to the Board regarding the project be delivered to KID by September 15th.

Mr. Freeman said that the 30% engineering design was expected to be completed by April 2012 and that another meeting would be held before the project went to final design.

PUBLIC COMMENT (continued):

- **Mr. McGlynn asked when loan payments would begin.**
Mr. Freeman said water was expected to be on the ground the summer of 2015 based on the Department of Ecology loan documents. He said that the first LID payment would be due December 31, 2015 for the Department of Ecology loan.
- **Mr. Holmes suggested that, if costs for the project went down, a design option for centralized filtration be considered.**
Mr. Freeman stated it would be examined further.
- **Mr. Pilgrim asked why there was a two-year construction cycle.**
Mr. Freeman said that the timeline for the project had been set forth in the Department of Ecology construction agreement and the primary variable was the annual window of opportunity for work on the river due to fish protection requirements. Mr. Everaert confirmed that 18 to 24 months was a reasonable time frame for project construction.
- **Diane Stanton, 21505 Lakegreen Drive in Mundelien, Illinois, asked whether there was flexibility in the plan to allow persons with too little or too much water to trade allotments.**
Mr. Freeman said the Board of Directors would need to consider that policy and that there was not a procedure in place. He cautioned that the 1,785 acre maximum could not be exceeded. He said the system would be designed for that size and pipe size would be a limiting factor. Mr. Freeman said trading within the LID concerned water law and was a question for KID's attorney.
- **John Gomez, 501 Larson, asked how much water would be guaranteed in a drought year.**
Mr. Freeman said that the Red Mountain South LID would be subject to the same junior water right prorationing as the rest of the District.

President McKenzie asked for a show of hands to indicate whether attendees wanted the project to move forward. The response was overwhelmingly in favor of continuing the project.

Mr. Revell said that the meeting minutes would be published by KID.

Director Jaksch moved to adjourn at 6:54 p.m. Vice President Huffman seconded the motion and it carried unanimously.

Attest:


David McKenzie, Board President

Witness:


Charles Freeman, Secretary/Manager

Prepared by Doris Rakowski