



Minutes

KID Board of Directors Workshop Special Meeting
Carl W. Petersen Board Room
Tuesday, October 11, 2011, 9:00 a.m.

President McKenzie called the meeting to order at 9:00 a.m. Mr. Freeman called roll.

Directors Present:

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

Other Persons Present:

Brian Iller, Legal Counsel

Staff Present:

Charles Freeman, District Manager
Ed Everaert, Engineering/Operations Manager
Colleen Storms, Comptroller/Treasurer
Scott Revell, Planning Manager
Judy Smith, Real Estate Administrator
Shannon Frame, Customer Accounts Supervisor
Brad Crawford, Purch., Inv. & Tech. Coordinator
Ben Woodard, Staff Engineer
Jason McShane, Staff Engineer
Doris Rakowski, Executive Assistant

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

WORKSHOP:

Cost of Service Rate Study: Mr. Freeman suggested discussing the policy in detail then reviewing examples of the impact of the policy on the model.

In response to a question from Director McGuire, Mr. Freeman discussed what flexibility the board of equalization would have in defining agricultural land and discussed having appropriate constraints to avoid allegations of arbitrary or capricious determinations. He suggested the policy could be tied to previous practice or state law. Mr. Freeman read the current proposed definition of agricultural land from the draft policy and excerpts from RCW 84.34.020. He discussed the challenges of identifying all agricultural lands, but noted that the Board of Equalization would allow exceptions to be addressed.

Defining agricultural land and the challenge of identifying small agricultural parcels such as hobby farms were discussed. The option to petition the Board of Equalization was addressed. Mr. Iller suggested that legal of authority to amend the assessment roll after the Board of Equalization was complete could be discussed in executive session.

Mr. McShane said that once the intent of the Board was established in policy, the challenge for staff would be to look from information from sources such as the County or Cities to apply the Board's policy. He discussed challenges with use of County and City zoning maps. He discussed County property class descriptions.

Director Jaksch discussed zoning changes during City annexations, grandfathering in existing uses, and exemptions of hobby farms for personal use. Director McGuire said a system that was not burdensome for staff was needed. Discussion ensued. Different zonings between Benton County, Richland and Kennewick were discussed.

In response to a question from President McKenzie, Ms. Storms addressed the different number of qualifying parcels from using open space designation versus acreage designation, because not all parcels qualifying for open space designation have applied for it. Director McGuire

recommended sending postcards to anyone that may be affected by the definition. Mr. Freeman said staff could directly contact of the most impacted customers.

Timing for implementation of a new rate structure was discussed. Delaying implementation of the new rate structure until 2013 because of the need for the model to accurate before roll-out was discussed. Mr. Freeman suggested correcting the townhouse and condominium assessments for 2012 and implementing the rest of the model in 2013. Discussion ensued about the fairness of using the existing structure for another year. Mr. Freeman this rate study exercise proved that the current system is fairly equitable, and that it does cost more to get water to the center of town than to rural areas. He said that the tier and toll system was defensible and added that if KID stayed with the tier and toll system this year, there would be no change to the capital charge.

Discussion ensued regarding the process of putting data into the draft model and the nature of problems with the draft model. President McKenzie expressed the Board's consensus that the draft model not be released until it was fully ready. Huffman advised against rushing to get it done before equalization unless there was confidence that the model was correct. It was noted that KID was not increasing revenue.

Director McGuire said the purpose of working on the definition of the agricultural classification was to reach all people, large and small, who were using their parcels for agricultural purposes as defined by the State of Washington.

Whether to use only the RCW 84.34.020(2) definition of "farm and agricultural land" or to include the RCW 84.34.020(1) definition of "open space land" was discussed by the directors. Ms. Storms pointed out that the purpose of determining a definition was to apply the federal construction subsidy which was originally intended for agriculture. The purpose of the Reclamation Act was discussed.

Mr. McShane introduced the topic of assessment of condominiums and townhouses. He referred to a map distributed by Mr. Woodard and discussed the differences in assessments under the current policy assumptions of two subject projects (one condominium project and one townhouse project). Examples of charges for condominiums and townhouses under the existing tier and toll structure were provided. Discussion ensued regarding between the differences between condominiums and townhouses.

Mr. McShane said staff proposed to assess condominiums and townhouses alike, using the customer service charge and the applicable acreage charge. Mr. Freeman referred to redline draft Policy 2.24, Assessment Calculation Principles, and pointed out the proposed elimination of the section regarding buildable parcels less than 4,000 square feet and said that townhomes would be treated similarly to condominiums. Discussion continued. Mr. Freeman noted that this staff recommendation deviated from the WRAC recommendation but recognized the similarities between condominiums and townhouses. President McKenzie said he heard comments about this at a previous meeting and that this solution responded to the question of why treated condominiums and townhouses were treated differently.

Whether bills for common areas would be sent to homeowners associations was discussed. Mr. Iller said that statute indicated that the assessment for the common areas should be divided among the units and charged to the individual units. He said that if the Board adopted another policy allowing homeowners associations to act as agents of the individual units, the homeowners associations could pay for the common areas though the charges were billed to

the individual units. Discussion ensued. Ms. Storms clarified how the common acreage was entered in KID's current software. Mr. Iller spoke about statutory requirements for assessment of condominiums and townhouses. Discussion continued regarding historic treatment of townhouses and condominiums. Mr. Iller the previous board tried to equalize service cost when it went to the tier and toll system and that these proposals were trying to fine tune it. Director Rathbun and Director Jaksch agreed with proposed changes.

President McKenzie said a question that arose in meetings was whether KID had the ability to send assessment bills for all the units in a condominium development to the association. Ms. Storms referred to a handout titled "Condominium or Townhome Association Master Billing Agreement Discussion," and reviewed a proposed process to allow master billing of the homeowners associations while conforming to statutory requirements for assessing each unit and maintaining the KID's legal remedy against the individual properties. She discussed reasons some associations have given for desiring such a billing arrangement. Ms. Storms confirmed to Director Jaksch that individual owners would be notified of their assessment and that this would only be a billing arrangement. Discussion ensued how short or partial payments could be resolved under a master billing agreement. Director McGuire raised the issue of the District's late fee policy. Mr. Freeman suggested the possibility of a courtesy notice of delinquency rather than a master billing agreement, and said the fair debt collecting act should be considered. Discussion ensued regarding meeting with the 41 groups that could be affected regarding their preferences. In response to a question from Director Rathbun, Mr. Iller said any land owner could assign an agent for payment of the assessment while remaining the liable party for the assessment. Discussion continued.

Mr. Freeman introduced discussion of Policy Section 1.14 regarding the definition of "partial PLA (private line area)." Mr. McShane discussed the proposed new definition which would more accurately reflect the amount of infrastructure used to get water to approximately 3,000 properties. Examples were displayed on the overhead and discussion regarding verifying ownership of various systems ensued. In response to Director McGuire, Mr. McShane confirmed that KID was not proposing to take ownership of any additional infrastructure, only to more appropriately charge for use of KID-owned infrastructure. In response to a question from Mr. Freeman, Mr. McShane discussed repair challenges in situations where a PSA (pressurized service area) and a PLA are connected. Plans in progress to map isolation valves and add more valves where needed were discussed.

Director McGuire recommended including in the policy a timeline for review of percentages included in the rate model as changes occur and more accurate information becomes available.

President McKenzie called a short break at 10:49 a.m. and the meeting reconvened in open session at 10:59 a.m.

President McKenzie asked if there were more comments regarding that Cost of Service Rate Study. In response to a question from Director McGuire, it was confirmed that any action arising from the workshop discussions could be taken at the next regular Board meeting.

Discussion ensued regarding implementation of the new rate model in 2013, which Director Jaksch and Director McGuire supported. Mr. Freeman said a revised draft Policy could be brought to the Board at the next Board meeting. President McKenzie asked that staff include action on needed items on the next board agenda.

The Directors thanked staff for their work, and the work of the Water Rate Advisory Committee was appreciated.

Mr. Freeman reported that KID meeting to discuss this project with the Tri-cities Herald Editorial Board at 2:30 and invited a board member to attend. Director Rathbun said he would attend.

Recalibration Principles Policy Review: Mr. Freeman read from the proposed policy and asked the Board and staff to confirm their agreement with the proposed text by paragraph.

Discussion ensued regarding the required annual updates to the USBR. In response to a question from Director Jaksch, Mr. Iller said legal risks of a proposed action should be discussed in the executive session scheduled for this topic. Mr. Everaert said Carron Helberg of the USBR prefers the update to be made in December. He advised that KID begin the practice of submitting the information annually, rather than wait to be asked to do so. Mr. Freeman said these policy suggestions were internally driven by KID's review of acreage amounts.

Mr. Freeman read the proposed definition of "assessed irrigable acres." Discussion ensued regarding the maximum irrigated irrigable acres under the Yakima water right.

Mr. Freeman read the proposed definition of "irrigable acres." Mr. Iller recommended adding "and beneficially use" after "safely receive." Discussion ensued regarding whether the Board needed to reaffirm the maximum water allotment of 3.5 acre feet. Staff indicated that water allotment was more appropriately handled separately from this policy. Mr. Iller read from paragraph 23B of the 1953 Contract regarding amount of water to be delivered. Discussion continued.

Mr. Freeman read the proposed definitions of "irrigable non-assessed acreage" and "non-irrigability." Mr. Iller recommended removing the word "having" from the first line of the "non-irrigability" definition.

For discussion of Section 2, Eligibility, Mr. Freeman referred to redline copy of the proposed policy and continued reading. Mr. Iller recommended that Mr. Revell's comments be discussed in executive session. Mr. Freeman read rest of the section.

Mr. Freeman read Section 3, Allocations. He noted that Mr. Revell's comment on this section was intended to clarify the pre-plat process. Discussion ensued regarding the preliminary and final plat processes.

Mr. Freeman reported that recalibration of two acres and above was done in phase 1 of the recalibration project. Mr. Everaert reported there was a draft scope of work for proposed phase 2 of the project, which would include about 400 parcels with one to two acres. He said the per acre cost would be much higher for phase 2 than phase 1 and that he could work with Ms. Marple to prepare a projected budget for phase 2.

Mr. Freeman asked if it was in the District's interest to dedicate a portion of a full-time employee to this project. Director Jaksch said it was very important. In response to a question from Director Rathbun regarding whether very small parcels could be estimated, Mr. Iller said the legal risk of a proposed action should be discussed in executive session.

Mr. McShane discussed an example of an agricultural parcel with partial irrigable and dry land established by the USBR and not yet examined by the KID. Discussion ensued.

Mr. Freeman reported that about \$18,000 budgeted for a temporary employee's work would probably not be enough to complete phase 2. Mr. Everaert said that the total acreage expected to be found by phase 2 would not approach the acreages identified by phase 1.

Discussion ensued regarding irrigation ponds not being considered irrigable acreage. Mr. McShane said that lined ponds could be considered an impervious surface. Mr. McShane displayed an example and discussed the proportions of irrigable and non-irrigable acreage on the lot. He said this parcel was being assessed appropriately for the actual use. President McKenzie restated that the ponds should be reviewed. Mr. McShane said there were both KID-owned and private ponds and said ponds could be addressed if included in the scope of work. Mr. Everaert suggested that lined ponds be included in the scope of work. Discussion continued.

Director Jaksch suggested hiring an additional fulltime employee for this project. Mr. Revell reviewed historical discussions of the Board on the funding of this issue and said this may not be a long-term fulltime job. Mr. Freeman said there was enough other work needed that there could be changes in the job description for an associate engineer after the project was completed and recommended including an additional fulltime employee in the next budget. Mr. Everaert said he would provide the scope of work and a job description.

Mr. Freeman recommended having discussions with the cities regarding development of properties outside of the historical boundaries of the KID and the availability of water from the KID. Mr. McShane discussed KID's current practice. He discussed the goal of efficiency of delivery. Discussion continued. Mr. McShane said recalibration in a plat today involves removal of impervious surfaces such as streets. He said risks of a proposed action regarding changes to how KID handles situations in the future should be addressed in executive session.

Mr. Freeman said the revised draft policy would be brought to the Operations and Engineering Committee and would be emailed to the group. President McKenzie said that action would not be taken immediately.

Mr. Freeman said he would increase the Engineering budget for the addition of one fulltime employee. In response to a question from Director McGuire, Mr. Freeman said engineering work was needed for other projects, such as the comprehensive plan and mapping PLAs. Director McGuire agreed with the caveat that it not be "make work." Vice President Huffman encouraged the goal of completing these tasks.

President McKenzie called a lunch break at 12:00 p.m. and the meeting reconvened in open session at 12:28 p.m.

Kennedy Road LID: Ms. Smith discussed the history of the Kennedy Road Binding site plan from 2002. She noted that the KID could not develop its own properties. Ms. Smith said that she had met with the City of Richland about forming an LID. She said that once the LID was completed that KID could pay it off to prevent a lien on the property.

Ms. Smith reported that there was a purchase and sales agreement on one property, and that when the buyer's original lot was purchased from the KID, Mr. Macon had the purchaser put \$15,000 in trust for the Kennedy Road improvements. Ms. Smith asked if the Board was open to using Realty funds and having the City of Richland form an LID. She estimated it would cost about \$.23 per square foot, which built into the sales price of the lots being sold. She noted that

property in the Queensgate area was in high demand right now and discussed current development in the area.

Vice President Huffman asked an appraisal of the property was needed. Mr. Freeman said that was a good idea. Prices recently paid for nearby lots were discussed, as was the amount currently in Realty Reserves. In response to a question from Vice President Huffman, Ms. Smith said the property would be ready for development following completion of the road LID. Discussion ensued.

In response to a question from Director Jaksch regarding the estimated cost of \$475,860, Ms. Smith said KID would pay when the road LID was complete. Mr. Freeman said the matter would be on the next Board meeting agenda.

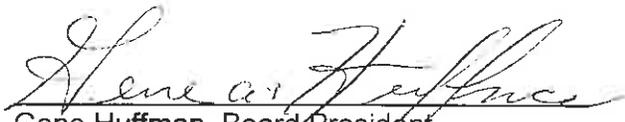
EXECUTIVE SESSION: At 12:45 p.m., the Board went into executive session for one hour to discuss with legal counsel the legal risks of a proposed action or current practice per RCW 42.30.110(1)(i)(iii) regarding two matters, and to consider the minimum price at which real estate will be offered for sale or lease per RCW 42.30.110(1)(c).

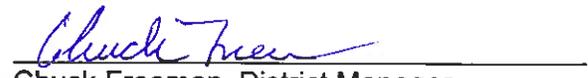
At 1:45 p.m., the Board returned to open session.

Director Rathbun moved to adjourn at 1:46 p.m. and Director Jaksch seconded the motion. The motion carried unanimously.

Attest:

Witness:


Gene Huffman, Board President
Approved February 21, 2012


Chuck Freeman, District Manager

Prepared by Doris Rakowski