



Minutes

Meeting of the KID Board of Directors
Carl W. Petersen Board Room
Tuesday, May 3, 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
Kirk Rathbun
Patrick McGuire
John Jaksch

Staff Present:

Charles Freeman, District Manager
Ed Everaert, Engineering/Operations Manager
Colleen Storms, Comptroller/Treasurer
Scott Revell, Planning Manager
Lynda Rosenbaum, Assistant Planner
Jason McShane, Staff Engineer
Doris Rakowski, Executive Assistant

Other Persons Present:

Les Addams, Water Rate Advisory Committee Member
Gary Hall, Water Rate Advisory Committee Member
Tim Berk, Water Rate Advisory Committee Member
Brian Iller, Legal Counsel
Jose Chavallo

APPROVAL OF AGENDA:

President McKenzie added Approval of Fuel Contract to Action Items. He tabled Resolution 2011-14 until the May 17, 2011 Board Meeting.

Discussion ensued regarding matters for executive session. President McKenzie added to executive session discussion with legal counsel of litigation regarding Acquavella (RCW 42.30.110(1)(i)(i)) and discussion with legal counsel of potential litigation regarding three matters including Chavallo (RCW 42.30.110(1)(i)). Mr. Iller said that, as this was a regularly scheduled meeting, there could be potential action following executive session if necessary.

At the request of Director McGuire, President McKenzie moved Approval of Easement for Benton PUD at Elliot Lake from the consent agenda to action items.

Director Jaksch moved to approve the amended agenda. Director McGuire seconded the motion and it carried unanimously.

CONSENT AGENDA:

Director Jaksch moved to approve the amended consent agenda. Director McGuire seconded the motion and it carried unanimously.

Items approved by consent agenda were:

1. Minutes, KID Board Meeting, April 19, 2011
2. Approve Amon Wasteway Letter to Cities and Counties
3. Confirm Job Descriptions for Construction Inspector/Engineering and CAD Technician, Engineering Technician/Locator, Vegetation Control Specialist, Vegetation Control Technician, and Maintenance Laborer
4. KID O&M Vouchers

Accounts Payable

Numbers: 62122 through 62151	\$	77,226.66	
62152 through 62192		52,506.53	
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Total Accounts Payable			129,733.19

Payroll

Numbers: 32001 through 32010	\$	10,411.33	
32011 through 32011		485.66	
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Direct Deposit		69,789.49	
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Total Payroll			80,686.48
Total Disbursements			<u>\$ 210,419.67</u>

Voided Checks

Payroll Checks 31672-32000 Void and replaced with stock that has the new account number on them.

PRESENTATIONS: None

PUBLIC HEARING: None

BOARD REPORTS: None

ACTION ITEMS:

Adopt Policy 1.16, Public Records Disclosure: Mr. Freeman discussed the need for a new policy regarding public records and described the proposed policy.

Director Rathbun moved to approve Policy 1.16 Public Records Disclosure. Director Jaksch seconded the motion and it carried unanimously.

Confirm Appointment of Public Records Officer: Mr. Freeman discussed the need to appoint a public records officer consistent with RCW 42.56.580. He reported that he recently appointed Ms. Rakowski, who had been acting in that capacity unofficially for some time.

Vice President Huffman moved to confirm the appointment of Doris Rakowski as the District's Public Records Officer. Director Jaksch seconded the motion and it carried unanimously.

Mr. Freeman confirmed to Director McGuire that a link would be provided on the KID website for making public records requests.

Accept Feasibility Study: Mr. Everaert discussed the history of the Feasibility Study. He said the Operations and Engineering Committee recommended that the Board accept the final report. Discussion ensued regarding funding of the study.

Director Jaksch moved to accept the KID Feasibility Study Final Report. Director Rathbun seconded the motion and it carried unanimously.

Approve Settlement Agreement: Mr. Revell reported that the KID Board had authorized execution of a slightly different version of the settlement agreement in 2010. He said that, with a few changes, this agreement had been signed by the Yakama Nation. Bureau of Reclamation and the Department of Ecology signatures were pending, but the Department of Ecology had confirmed they would sign. He said staff recommended approval.

Director Jaksch moved to authorize the Board President to execute the settlement agreement amendment contained in attachment 1. Director Rathbun seconded the motion and it carried unanimously.

Set Date for Special Meeting: Mr. Freeman presented staff's recommendation to schedule a special meeting of the Board of Directors with the Water Rate Advisory Committee and the consultant from FCS Group, to review the draft rate schedule which would incorporate policies identified by the Board on May 3rd and 17th. Discussion ensued regarding scheduling.

Director Rathbun moved to call a special joint meeting of the Board of Directors and the Water Rate Advisory Committee on Monday May 23 at 6 p.m. in the Peterson Boardroom, for the purpose of receiving and reviewing the consultant's Water Rate/Cost of Service study. Mr. Revell confirmed to Director McGuire that while the special meeting agenda had not been set, it was appropriate include a public comment period and to encourage the public to fill out comment cards. **Director McGuire seconded the motion and it carried unanimously.**

Approve Fuel Contract: Ms. Storms said work done by Brad Crawford would allow KID to piggy-back on the City of Yakima's fuel contract via the interlocal agreement. She said the contract terms were favorable and recommended approval. Discussion ensued regarding price and tank size.

Director McGuire moved to approve the fuel contract with R. E. Powell. Vice President Huffman seconded the motion and it carried unanimously.

Approve Easement for Benton PUD at Elliot Lake: Mr. Freeman described needed work by Benton PUD due to a grounded out power line which supplied power to the irrigation pump house. He discussed restrictions of the right-of-way easement. He confirmed that if Benton PUD needed any changes the document would be brought back to the Board prior to signing. He confirmed that the Department of Ecology is the only agency with authority over the dam.

Director McGuire moved to approve the 10.00 foot PUD utility easement across the Blair reservoir dam and to authorize Chuck Freeman, District Manager, to execute the easement upon completion of the legal description. Director Rathbun seconded the motion and it carried unanimously.

RESOLUTIONS:

Resolution 2011-13, Rescind Water Entitlement Relegation and Return Parcels to 2011 KID Assessment Roll: Ms. Rosenbaum discussed the need to return four parcels to the assessment roll as the USBR denied relegation because the party applying for

relegation was not the owner of record. She confirmed that the title holder chose not to relegate. Discussion ensued regarding KID relegation process.

Director Rathbun moved to approve Resolution 2011-13 as presented. Director Jaksch seconded the motion and it carried unanimously.

Resolution 2011-14, Rescind Water Entitlement Allocation and Remove Parcel from 2011 KID Assessment Roll: Tabled.

Resolution 2011-15, Fees (superseding 2011-12): Ms. Storms discussed the need for an updated fee schedule. She said that document copying charges were added, and some planning charges were clarified.

Vice President Huffman moved to approve Resolution 2011-15 setting fees for the District and superseding all previous fee resolutions. Director Rathbun seconded the motion and it carried unanimously.

PUBLIC COMMENTS: None

STAFF REPORTS:

Finance Manager: Ms. Storms reported:

- Ms. Storms and Beth Smith were working on how to determine realistic estimated times of service for customers.
- KID took in over 200 assessment payments per working day, many of which were automated, and the call volume was about 450-550 per day.
- Some people were still delinquent on potable billings, and staff was moving to next step for those delinquent accounts. Discussion ensued regarding lien rights and notifications. Mr. Iller said he would report to the Board on lien rights.

Mr. Freeman said the new system call counter was accurate, though the previous system last was not, so comparisons with last year were not useful. Topics of calls were being tracked to allow improvement next year. Call management with the new phone system was discussed.

Mr. Freeman said that last Friday he sent the Board memo regarding the salary survey .

Engineering/Operations Manager: Mr. Everaert reported:

- KID main canal diversion went from 188 cfs to 215 cfs today. Monthly allotment was discussed. Mr. Iller said the monthly allocation could not be exceeded. Mr. Everaert recommended further discussions regarding KID's allotment in the future.
- He discussed the current reservoir status reported on the USBR Hydromet website.
- The SCADA radio successfully transmitted for the first time yesterday. Two radios will be sent in, and other ten will be operational to record flow data.
- The Bretz road connections were made and the asphalt contractor was working. The pressure test was fine.
- The 16.1 Badger contract was completed and piping work by the KID crew would be finished over the next month. This improvement was expected to prevent further overtopping.
- Recalibration work was underway.

- The draft scope of work for the Red Mountain LID engineering design and construction management was sent out yesterday.
- There has been no seepage in newly lined areas.
- Work being done to address water pressure issues in LID 99 was discussed.

Planning Manager: Mr. Revell reported:

- Three Water Rate Advisory Committee members toured Chandler pump station last week.
- The Benton County Commissioners conducted the Antinori Road LID hearing and the project was funded without the roundabout or a bike path.
- Staff examined KID's Finley property and will prepare report to Realty Committee
- The SEPA Co-Lead Agreement with the Department of Ecology was signed.
- The first legislation regarding implementation of YRBWEP integrated plan was expected in about 12 to 18 months.
- Mr. Revell was still taking comments on the proposed customer survey. Director McGuire said the Finance Committee would like to review the survey.

District Manager: Mr. Freeman reported:

- The USBR audit went well and was finished early.
- The Yakima USBR office that participated in SCADA project years ago indicated they did not want the old SCADA packs, so KID would find use for them.

President McKenzie called a short break at 9:55 a.m. The meeting reconvened in open session at 10:05 a.m.

WORKSHOP:

Policy Discussion with Water Rate Advisory Committee (WRAC): Mr. Freeman thanked the WRAC members for attending the meeting. He read into the record the report, "Policy Questions Regarding Rate Structure," (appended to minutes). Discussion ensued:

- **Criteria for Agricultural Designation:** Options discussed included using the Washington State Department of Revenue's revenue requirement for a sales tax exemption, the Benton County agricultural designation, the Washington State tax open space criteria or a list of acceptable uses regardless of income. An approach which was not labor intensive was recommended. President McKenzie noted that since KID was already getting county records anyway, using the county's determination would be simple. Mr. Revell said staff would investigate Benton County's criteria.
- **Allocation of the Remaining Federal Construction Subsidy:** Ms. Storms reviewed the purpose of the federal subsidy and asked how to allocate the portion of the subsidy remaining. The Board discussed whether to concentrate the remaining subsidy intended for agriculture on the remaining agricultural lands or to take the percentage it represents of the original allocation. Mr. Iller offered to discuss the intent of the USBR contract in executive session. Following discussion, Mr. Freeman asked Mr. Iller report on the legal issue for the next meeting.
- **Components of the Fixed Portion of Assessment:** Mr. Freeman discussed the effects of urbanization on the District. Ms. Storms explained the method used to calculate the

effect of urbanization for the fixed portion of the assessment and said she supported the consultant's proposal regarding this. Mr. Freeman said the fixed charge per parcel would also cover overhead, including customer service.

- **Special Small Parcel Rate:** The Board discussed whether to have a special rate for small parcels and how to determine what parcels would qualify. Ms. Storms said only the customer service portion would be charged on the assumption that very small parcels were associated with a larger parcel, as in the case of planting strips. Criteria discussed included size and whether anything could be built on the lot. Defining a small parcel as below a certain size and without a dwelling on the parcel was suggested. The process for appealing to the Board regarding parcels outside the limits was discussed. Mr. Freeman said staff would propose a policy.
- **Public Services Classification:** Whether to have a special rate for publicly-funded properties was discussed. Mr. Iller offered to address the legality of such an arrangement in executive session. Further information on the practices of other municipalities was requested. Potential for double taxation or asking District rate payers to subsidize public properties was discussed.
- **Definitions of Transmission, Distribution, Distribution Pumps and Wells:** Ms. Storms requested clarification to verify that the rate committee and staff were using the same definitions. Discussion ensued regarding areas of service by canal and pipes, and size of pipes. Staff was asked to provide the definitions at the next meeting.
- **No Revenue Increase:** Mr. Freeman reiterated that the goal was to more fairly allocation of costs, not to generate more revenue.
- **Consideration of Budget Reduction:** Mr. Freeman said staff would make it a budget priority to reduce costs, and confirmed that staff was already identifying efficiencies in the District to help reduce costs. Ms. Storms said the rate model would be applicable regardless of the target revenue, so the two decisions could be separate.

Regarding the agricultural land definition, Mr. Berk said it would be to the District's advantage to look to the county or city wherever possible to avoid duplicating effort. Mr. Addams suggested using the farm service agency in Prosser as a resource.

President McKenzie asked whether it would be possible to offer a way to opt out of full service to a lower level of service or operate as a private line. Mr. Iller said he would have to consider the legal implications of the question.

President McKenzie thanked the committee for their time.

President McKenzie called a break at 11:06 a.m. Mr. Iller listed the purposes of the executive session to follow the break and said there would potentially be action following executive session.

EXECUTIVE SESSION:

At 11:19 a.m., the Board went into executive session for 45 minutes to plan or adopt the strategy or position to be taken by the governing body during the course of any collective

bargaining per RCW 42.30.140(4)(b), to discuss with legal counsel pending litigation regarding Acquavella per RCW 42.30.110(1)(i), and to discuss with legal counsel potential litigation regarding three matters which were specifically threatened or reasonable anticipated to occur, and to discuss with legal counsel risks of a proposed action or current practice pursuant to RCW 42.30.110 (1)(i)(i),(ii) and (iii).

Executive session was extended for ten minutes at noon and the Board returned to open session at 12:11 p.m.

OPEN SESSION:

Mr. Iller provided the Board an email and attached letter which he received from attorney Larry Costich on behalf of Jose Chavallo. Mr. Iller said the letter requested the KID to provide certain information, and indicated Mr. Chavallo would be prepared to provide testimony and evidence at the May 17th Board meeting regarding the Board's rescission of the water entitlement transfer and whether or not the Board should revoke that action. The Directors took about five minutes to read and individually consider the contents the email and letter.

President McKenzie said receipt of the letter was the reason that Resolution 2011-14 (Rescind Water Entitlement Allocation and Remove Parcel from 2011 KID Assessment Roll) was removed from this meeting's agenda. Discussion ensued regarding how to proceed on the request and ensuring Mr. Chavallo was provided all the materials to which he was entitled. The Board determined to set aside time at the May 17th meeting to hear Mr. Chavallo and Mr. Iller said he would notify Mr. Costich of the Board's decision. The Board requested that USBR representatives be invited to the meeting.

Director Jaksch moved to adjourn at 12:25 p.m. Director Rathbun seconded the motion and it carried unanimously.

Attest:

Witness:



David McKenzie, Board President



Charles Freeman, Secretary/Manager

Prepared by Doris Rakowski



To: Board of Directors
Meeting Date: May 3, 2011
RE: Policy Questions Regarding Rate Structure
From: Chuck Freeman, District Manager

Background/Summary/Discussion:

Summary of Guidelines for Commissioning this Rate Study & Committee:

- 1) KID assumes “zero-based budgeting” which is a method of budgeting in which all expenses must be justified for each new period. Zero-based budgeting starts from a “zero base” and analyzes every function within an organization for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.
- 2) The revenue target we are trying to hit with any rate structure is the amount needed to meet the budget including provisions for appropriate reserves, equipment replacement, and capital improvements.
- 3) KID is not looking to this modification of our rate structure to increase the total revenues from irrigation assessments, as the structure should be applicable to any budget level determined to be needed. KID is looking for the rate structure that most fairly and accurately achieves the following principles:

Principles of the Calculation Model:

- Rates should be fair and equitable.
- Rates should distribute costs to the customers who benefit from the infrastructure that generates those costs (e.g. customers who get their water via pipelines and pumps that provide pressure should pay more than those who get unpressurized water right off the canal).
- The charges by the District must reflect the relative cost of serving different groups of customers. The KID learned from the old LID assessment system, that it is not reasonable, efficient or sustainable to try and track costs down to the exact addresses affected by an expense. Instead, KID needs a simplified rate structure that is strongly cost-based and which groups similar customers in rate tiers. The total revenue target comes from the KID budget. The rate structure must allocate this targeted total in the most equitable way.

- Each type of expense must be analyzed to determine how best to allocate it to the different types of infrastructure which it benefits (the three primary groups identified are: *transmission system, distribution system, and distribution pumps*). Direct field labor becomes a significant driver of other costs into these groups. The method used to allocate field labor in the current study has been broad brush percentage allocations of each field position KID had as of last year; the allocations are not from actual work orders. *While the total labor expense used in the allocation calculation is very accurate*, it is the ratio in each of these three buckets (transmission-distribution-distribution/pumps) that could change over time as we replace estimated percentages with actual work order data.
- The rate system also needs to address special rate impacts like the federal construction subsidy purposed primarily for agriculture.

Policy Decisions to Consider:

- 1) The construction subsidy provided by the federal government was primarily for agriculture. Regarding the remaining subsidy, after consideration of depreciation for 50+ years, should the full subsidy be all allocated to the remaining agricultural lands (concentrating the subsidy on the remaining Ag acres)? Or, should the remaining agricultural lands have a pro rata share of the original subsidy only (after depreciation)?
- 2) What should the criteria be for Agricultural (AG) designation: Should the agricultural designation be based on the County or City zoning or should it be determined based on actual commercial “Ag” use? What should the **minimum acreage size** be to qualify for the “Ag” federal subsidy?
- 3) The new rates should include a fixed portion that best captures the costs that apply per account regardless of the size of the lot, and a per acre charge that captures the costs that are affected by the size of the lot irrigated. A percentage has been developed that represents the approximate percentage that costs have increased because of the increased number of accounts within the same number of acres. Other costs that most equitably should be applied per account, not per acre, are customer service costs. The policy question is whether the Board agrees that the effect of urbanization (increased numbers of accounts, not acres) and the direct costs of serving accounts should make up the fixed cost?
- 4) Should consideration be made regarding a public services classification that would reduce the share of costs paid by publicly funded property owners? (One thought on this is that a school, for instance, is financially supported by all residents of the community, not just KID customers. Should other KID customers subsidize the school’s rates?) What about churches, cemeteries, or parks?
- 5) Should a special small parcel rate be developed to apply to lots small enough that there is no potential for developing a structure? What criteria would be used to determine “small parcels?” The small parcel rate would basically include only the customer support

component of the fixed charge. Zoning within the cities would suggest that this should be extended to only properties less than .025 acres (1,114 sq ft lots) if we want to simply make the cut where it is impossible to build a structure. Applying a small parcel rate to lots less than .075 acres has been discussed previously, but condos and other types of uses would be allowable on lots of this size. Is a small parcel exception warranted and what eligibility criteria should we use?

- 6) The District needs to clearly define transmission, distribution, distribution pumps and wells for the purposes of allocating expenditures consistently.
- 7) The change in the rate structure could decrease assessments for many accounts and increase assessments for many others. **The overall revenue total will be the same.** What policies for implementing the new assessment rates should be considered?
 - i. Should the district phase in any cost reallocations to customer classes so that revenue targets are still met during the phasing period? This could be done in several different ways:
 - 1) If the recalculation of the fixed charge is found to be the primary driver of increases and decreases, KID could step down the percentage of the fee recovered in the fixed charge over 2-3 years, or
 - 2) Cap increase and decrease percentages each year until the targets are hit, or
 - 3) Phase in the reallocation of costs so that there are limits on the percentage of increase a customer will have in each year (30%-50%-75%-100 %?)
 - ii. Should the District take an approach that combines the phased adoption of the recalculated fixed charge and also caps maximum increases?
 - iii. Should the District make all of the changes to rates simultaneously without phase-in?

Additional Policy Decisions to Consider:

While there is no overall revenue increase or decrease as a result of the rate system redistribution of costs to accounts, and the revenue target will not drive the form of the rate structure, should the District consider budgeting a revenue decrease for the next assessment year?