

**Carmel Area Wastewater District/Pebble Beach Community Services District
Pebble Beach Company**

**WASTEWATER RECLAMATION PROJECT
MANAGEMENT COMMITTEE**

MINUTES

**Meeting of February 6, 2009
Pebble Beach Community Services District Boardroom
Forest Lake & Lopez Roads, Pebble Beach, CA**

1. Call to Order

Ray von Dohren, CAWD General Manager, serving as facilitator, called the meeting to order at 9:30 a.m. Members or alternates present were: Ken White and Robert Kohn, Carmel Area Wastewater District Board of Directors (CAWD); Gary D. Hornbuckle and Richard Verbanec, Pebble Beach Community Services District Board of Directors (PBCSD); and Mark Stilwell, Executive Vice President, Pebble Beach Company (PBCo).

Others in attendance:

Mike Niccum, General Manager, PBCSD
Robert Wellington, Legal Counsel, CAWD/PBCSD
J.T. Rethke, Associate Engineer, PBCSD
Christina Baca, Assistant Engineer, PBCSD
Brent Reitz, Capital Services Project Manager, Pebble Beach Company
Barbara Buikema, Accountant/Controller, CAWD
Andrew Bell, Manager of Planning and Engineering, Monterey Peninsula Water Management District (“MPWMD”)
Vinod Badani, Vice President, E2 Consulting Engineers
Laura Dadiw, Clerk, PBCSD

2. Period for welcoming visitors, receiving public comment regarding matters not listed or considering changes to the agenda:

Following introductions, there were no comments from visitors or Committee members regarding matters not listed on the agenda, and no requests were received to change the content or order of the agenda.

3. Minutes:

It was moved by Member Stilwell, seconded by Member White, and unanimously carried, to approve the minutes of the Committee meeting of April 18, 2008, with the deletion of the word “positively” and changing “was” to “were” in the first paragraph, fourth sentence, on page 2 of 4 as requested by Member White.

4. Receive and consider reports relating to operations and maintenance (“O & M”) of Project:

4-A-1. Presentation of Annual Audit, June 30, 2008

The Committee received the Reclamation Project Annual Financial Report for June 30, 2008, and a letter dated January 12, 2009 submitted to the CAWD board of directors that is relevant to the Reclamation Project as well. Primary Auditor Ralph Marcello of the auditing firm Marcello and Company was present via teleconference at 9:45 a.m. Ms. Buikema stated that the audit was unqualified and that project accounting staff continued its efforts toward segregation of duties to the degree possible in a one-person accounting office. Mr. Marcello pointed out the suggested mitigation measures in this regard in the January 12th letter to the CAWD board, achievable by the Project obtaining insurance against embezzlement and/or theft, and by designating an individual to perform treasurer type functions such as opening and reviewing bank statements and reviewing vendor payment checks. A PBCo designee currently reviews the Project financials. Member Hornbuckle suggested, and Legal Counsel for the Project, Rob Wellington, concurred PBCSD CFO Suha Kilic would be an appropriate candidate for additional review of Project financials with his knowledge of project accounting and operations. Mr. Wellington stated that obtaining insurance through CSRMA would be pursued also and a status report would be provided at the next meeting. Mr. von Dohren requested that Ms. Buikema make arrangements with Mr. Kilic to commence the review process and update the committee at the next meeting.

It was moved by Member Verbanec, seconded by Member Stilwell, and unanimously carried for PBCSD CFO Suha Kilic to provide financial review duties for the Project as detailed by the auditor.

4-A-2. Financial Statements from July through November 2008

Barbara Buikema reviewed the financial statements for the period from July 1 through November 30, 2008. Ms. Buikema noted that the County Treasurer estimated interest earnings from the Operations & Maintenance (“O&M”) Fund at roughly \$10,000 after the loss to the County due to recent default of financial institutions is settled.

Member Hornbuckle requested that, if possible, the large amount of numbers provided in the financial reports be synthesized into one or two simple graphs.

Member Hornbuckle inquired as to how PBCo would break even for project costs in the long term to which Member Stilwell replied that the Company would not break even any time soon, but possibly over time for Phase II capital costs would be reimbursed through water entitlement sales. Member Hornbuckle noted that the entire project would not have been possible without the backing of PBCo and the tax-exempt bond funding that it received.

The O & M Financial Statements for the period were received for information and no action was required however it was moved by Member White, seconded by Member Kohn, and unanimously carried, to approve the Financial Statements through November 2008 as presented.

4-A-3. Capital Budget, Approve Funding for Reclamation Share of CAWD

The Committee received a written staff report from Barbara Buikema requesting approval of funding for the Reclamation Project share of the CAWD Capital Budget for 2009-10. Mr. von Dohren gave a historical overview noting that the basis for the primarily 50% share between CAWD and the Project for certain capital costs was agreed upon in 1994 when the project was first under construction to simplify accounting. Member Stilwell pointed out that PBCo per agreement is responsible for 100% of costs of recycled water production and CAWD is responsible for 100% of its operations costs – the 50% cost share split comes into play for the portion of costs that are not defined specifically as either – the Project is in no way intended or used to subsidize PBCo, CAWD or PBCSD. Mr. von Dohren stated that CAWD had at times in the past paid full costs for items that had qualified for the cost share. He requested that the committee approve the shared costs as outlined in Ms. Buikema's report.

Moved by Member Stilwell, seconded by Member Kohn, and unanimously carried, to approve funding for the Reclamation share of the CAWD Capital budget for 2009-10.

4-B-1. Treatment Plant O & M

The Committee received a written status report from CAWD Treatment Plant Superintendent, Mark Scheiter, regarding treatment plant operations. Mr. von Dohren stated that the microfiltration/reverse osmosis process has been operational since July 2008. The first blend of microfiltration/reverse osmosis versus micro-filtered only product was 60/40; in the winter the ratio was closer to 90/10 to meet the specifications required per the agreement for water to be stored in Forest Lake Reservoir. The Construction Operations Agreement stipulates that before the project is turned over to the Districts the water supplied must meet certain specifications as to quality; four of the five specifications have been met with electrical conductivity still high (550) relative to the range (350-450) set by the golf courses. Regardless, the water produced is higher quality than potable water provided by California American Water ("Cal-Am"). Electrical conductivity is a function of solids in the water for which CAWD measures in parts per million ("ppm"). The issue of electrical conductivity specification levels is still being reviewed and treated water is getting increasingly closer to the agreement specifications and most likely will not be an obstacle to delivery. CAWD staff would provide further information at the next meeting.

Mr. von Dohren stated that recycled water production in excess of that sent to the Forest was discharged to the Carmel River Lagoon for replenishment through December 2008 when State Parks funding ceased. Additional outside funding is needed to resume, as there is presently no CAWD budget to continue. Ms. Buikema noted that past Project financials did not include State Park funding of the Lagoon discharge as CAWD covered the costs and received the reimbursement from the State directly. Mr. Niccum noted that PBCSD participates in covering 30-40% of the operational costs for the Lagoon discharge. The cost of the water is currently approximately \$2,500 per acre foot. Mr. von Dohren noted the proposed cooperative Lagoon Project remaining at #16 on the list of projects to potentially be funded by the State.

Mark Stilwell stated, in regards to the disposition of excess water from the Project treatment plant if the reservoir is full, the benefit to CAWD of having an exemption to the

restriction of discharging to an area of special biological significance. The Company is attempting to achieve the same exemption for storm water run-off.

There being no further questions or comments, the written and oral reports regarding Treatment Plant O & M were received as informational and no action was required or taken by the committee.

4-B-2. Distribution System O & M; reclaimed and potable water use

PBCSD District Engineer, Michael Niccum reviewed the Distribution System Operations Report prepared by PBCSD Associate Engineer J.T. Rethke. Construction on the outlet structure of Forest Lake Reservoir to allow filling to six feet of freeboard was estimated to be completed in two weeks with the goal being to fill the reservoir completely by the end of March.

The Distribution System O & M Report was received for information and no action was required or taken by the Committee.

5. Water Issues

5-A. Sell Water Outside of Del Monte Forest

Member Stilwell reported that water entitlement sales had slowed considerably to 3-5 acre feet per year, a rate that would take 9 years to pay off the remaining Phase II project debt. An email had been sent to legal counsel David Laredo of the Monterey Peninsula Water Management District requesting he outline the process for selling water rights outside of Del Monte Forest. PBCo estimated that the remaining water rights would sell out in two weeks once offered outside the Forest.

5-B. Issues Relating to the Cost of Potable Water

Member Stilwell gave a review of issues related to the cost of recycled water provided by the Project. As it stands, the Project agreement rate design sets forth that Independent Recycled Water Users Group (“IRWUG”) members (as well as PBC) are charged for recycled water at the same rate as the charge to other golf courses for potable water (i.e., as if the Project hadn’t existed). The proposed Cal-Am potable rate schedule for golf courses will be based on an annual allotment of potable water required for adequate maintenance of each golf course using best management practices; the rate for this allotment will be 100% of the base potable water rate approved by the California Public Utilities Commission (“CPUC”); consumption beyond this allotment will be charged at 300% of the base rate. IRWUG has intervened in the CPUC proceedings to propose that the Cal Am rate design be changed. IRWUG argues that the proposed Cal-Am rate increases are far higher than originally anticipated and that the proposed rate design does not encourage enough potable water conservation outside of the Del Monte Forest. IRWUG is therefore requesting that the potable water rate design for golf courses be amended to allow a 25% reduction of the base potable water rate to other peninsula golf courses on potable water use of up to 85% of the pre-determined annual allotment for each course, then 500% for consumption beyond 85% of the annual consumption allotments. IRWUG is pursuing its proposed amended rate design so it can argue that, under the Recycled Water Sales Agreements, IRWUG (and PBC) only have to pay 75% of the potable water rate for all recycled water use. They are seeking to use specific language included in the Recycled Water Sales Agreement that we added to create a very limited exception to IRWUG having to pay potable

water rates that were adopted to respond to “extraordinary conditions” and specifically intended to “induce, or require, reduction in potable water use.” Everyone might remember that, about 5 years ago, when Cal Am faced imminent danger of going over the limits set by Order 95-10, Cal Am proposed to triple the base potable water rate for golf courses. PBC agreed with IRWUG at that time that such a rate increase would be unfair if applied to reclaimed water use, and got the Del Monte Forest courses exempt from such an increase. When we later amended the Reclaimed Water Sales Agreements (now the Recycled Water Sales Agreements), we agreed to include language in the agreements to cover this same kind of extraordinary situation. Unfortunately, IRWUG is now trying to use that limited exception language in the current CPUC proceedings to cause a decrease in the base water rates that IRWUG would otherwise have to pay. In PBC’s opinion, that is contrary to both the intent and language of the agreements.

Mr. Stilwell stated potable water rates have not risen to near the rate anticipated when the project was initially considered as the dam project proposed by Cal-Am has not transpired so those costs have not been included in rate increases. Cal-Am, the PUC Division of Ratepayer Advocates, and the Monterey Peninsula Water Management District all filed objections to the IRWUG appeal, and Member Stilwell, on behalf of PBCo, filed a declaration in opposition as well.

Mr. von Dohren has emphasized the inherent high costs of producing high quality recycled water and that it may be difficult for users to handle the cost of water rates being re-cast from artificially low rates to actual cost once PBCo pays off the bonds, which could be sooner as much as later.

Mr. Niccum stated that he would be notifying the point person for IRWUG, Mike Bowhay, of future meetings and providing a packet to him. Mark Stilwell thought that would be a good idea, as IRWUG should be represented at these meetings.

6. Receive Miscellaneous Information or Announcements from Members, Staff or Visitors:

There were no further reports or announcements from Committee members, staff or visitors.

7. Closed Session

The Committee did not meet in a closed session.

8. Adjournment & Next Meeting Date:

There being no further business at 11:38 a.m., it was moved and seconded, and determined by consensus of the members, that the Reclamation Management Committee adjourn to its next regular meeting on Friday, June 5, 2009 at 9:30 a.m. in the PBCSD Boardroom at 3101 Forest Lake Road, Pebble Beach, and to meet the first Friday of each March, June, and November henceforth.

Respectfully submitted:

Laura Dadiw
Clerk
Pebble Beach Community Services District/Dadiw Associates