

# CUPERTINO SANITARY DISTRICT

SANTA CLARA COUNTY

## CUPERTINO SANITARY DISTRICT BOARD MEETING WEDNESDAY, JUNE 17, 2009 (Revised)

The Sanitary Board of the Cupertino Sanitary District convened this date at 8:00 p.m. in the Stevens Creek Office Center, Suite 104, 20833 Stevens Creek Boulevard, Cupertino, California.

President Bosworth called the meeting to order and the following proceedings were had to wit: Roll call was taken, with the following members in attendance:

Directors: William A. Bosworth, Wendell H. Kerr, Jr., Curtis B. Harrison, and Christopher C. Lee and John M. Gatto.

Staff present: Manager Richard K. Tanaka, Staff Member Steven J. Machida, Staff Member Nichol Bowersox and Counsel Hal Toppel.

Guests present: John Stufflebean and Dale Ihrke both from the City of San Jose.

On motion of Director Gatto, seconded by Director Harrison, it was unanimously ordered that the Minutes of the meeting of Wednesday, June 3, 2009, be approved as is.

Director Gatto made an introductory statement to John Stufflebean (JS) and Dale Ihrke (DI) thanking them for attending the meeting and answering questions from the Board.

JS & DI stated that they have been with the Environmental Services Department (ESD) for 4 years and 19 years, respectively. ESD has five Divisions:

- Water Utilities
- Storm Drain Protection
- Waste Management
- Office of Sustainability
- Treatment Plant

The Plant was constructed in 1956. Plant Master Plans were prepared in 1960, 1971 and 2010/2011. CH2MHill was hired to review the infrastructure in the plant. They determined that the cost to correct the infrastructure was approximately \$1 Billion. Realizing that this cost was much larger than what was expected, San Jose Staff asked CH2MHill to review the Capital Projects and prioritize the projects in three categories – Critical, Mid-Critical and Non-Critical. The Digester improvements and the Electrical reliability were two projects that were in the Critical category. CH2MHill also reviewed and recommended projects that address safety issues and projects that have quick pay back.

Director Gatto asked DI to review the number of employee in 2006 and compare to number of employees in 2009. How does the number of employee affect CuSD if our flows remain constant during this span of years?

DI is preparing a list of plant employees by title and he will provide the information to Staff member Machida.

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JS stated that the increase in the number of employees is to improve the efficiency/rebuild the plant. It also provides technical service to upgrade files, as-built plans and studies, inventory and manage plant assets. DI explained that staffing is based on operation of a function and not based on flow.

Director Bosworth requested clarification on the newspaper articles where it is reported that the City of San Jose is reallocating staff from one department to plant. San Jose has not responded to the articles.

JS responded that in the City, San Jose Staff may have “bumping rights” depending on their position and job description. If a position is to be eliminated, that person in the position may be able to “bump” to a lower position which may cause subsequent “bumping”. The “bumping process” requires that the person who bumps must meet the qualifications for the position and a new position can not be created. Positions that may not have bumping privileges include Warehouseperson, Custodian, Engineering Tech.

Director Gatto asked how overhead (OH) charges are spread. Are the OH rates dictated to the Departments? Within the Division, how are costs/OH allocated?

JS stated that there is not much negotiating opportunity to change the OH rates. On an annual basis, the City reviews the citywide OH which includes HR, purchasing, City Manager, Council, Attorney and spreads the costs to the Divisions.

JS also addressed the \$4.0 million to \$7.0 million change in the OH costs from FY 2008-09 to FY 2009-10. A mistake in the calculation of the OH rate occurred. The reason that the OH rate grew is because the plant activity and projects grew while the activity in the rest of the City declined. Therefore, more of the OH was allocated to the Plant.

Director Lee asked if a financial audit is performed on Fund 513.

DI indicated that a financial audit is performed every year.

Director Lee asked is a performance audit has been performed on the plant.

JS indicated that a performance audit has not been performed on the plant but the City Auditor prepared a study on the Lab and on the vehicles four years ago.

Director Lee stated that he is concerned that if mistakes were generated this Board would never know that mistakes occurred. An example is the miscalculation of the OH. Director Lee wants to know how the projects are allocated because an increase of project costs makes our fees higher.

JS stated that the plant needs repair. There have been environmental changes, the site environment has changed and technology has changed. However, as shown in the plant tours, the plant needs fixing. One way to augment the cost is to utilize the buffer lands. The plant sits on 7 acres with 2600 acres of buffer lands. The City is evaluating expanding a bio-gas process and utilizing the methane gas generated from the landfill.

Director Lee asked how the cost allocation of the O&M is distributed from San Jose to CuSD.

JS stated that the cost allocation is based on the Master Agreement. If the basis of the cost allocation has changed, a change to the Master Agreement is needed.

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Director Gatto stated that the costs of projects that are in the budgets are critical because these costs will determine the OH rate. The \$7.0 million OH assigned to Fund 513 could be lower if the projects do not move forward and the money not spent.

Director Lee stated that without a financial audit or performance audit it is difficult to determine if an increase in the plant staffing is justified. If there is no direct benefit to CuSD and the projects that are being proposed are not needed to meet regulatory mandates, why should CuSD contribute to these projects?

JS stated that the voice on how the plant is operated is through TPAC. If there are questions about the need for a project, the item should be brought up at TAC and TPAC. DI added that the mandate of the plant is to treat the waste and to ensure that there are no sanitary sewer overflows. The proposed projects will assist to guarantee that the plant operates all of the time.

Director Lee asked about the need for public art and a warehouse.

JS indicated that San Jose has policy for art. He thought public art was an issue that the plant could endorse so he recommended to TPAC for approval. The thought was that rather than hiding the plant, they could use the art as a public outreach tool. Knowing that the plant is going to need extensive rehabilitation, San Jose Staff wanted to help the public understand what the plant does and to help develop more public support. The warehouse is needed to store redundant materials such as pumps, pipes, electrical components. In the past, these materials would be stored outside and some of the material would age or deteriorate due to exposure to the weather

Director Lee stated that some of the proposed projects seem to be “nice to have” rather than “critical to have”.

Director Bosworth asked if the City is considering wind farms or solar farm and if so, will the Tributary Agencies receive any benefits.

JS indicated the Tributary Agencies would benefit from the energy generated and used in the plant to offset the energy costs. The revenues generated by leasing the buffer land for the wind/solar farms would also be pro-rated to the Tributary Agencies. If this is something that the CuSD Board wants San Jose to pursue, the item should be brought up to TPAC

Director Harrison asked if CHM2Hill had submitted their delivery item in the Master Plan.

JS stated that the consultant is performing data collection and they will be reviewing the existing operations of the plant including the primary treatment, secondary treatment, land use, and disinfection. It is a three year process. The video task item was not included because San Jose felt the money could be better spent elsewhere.

Director Gatto asked if there is comparable cost recovery to rebuild the digesters that offsets the cost of the rebuild.

DI indicated that 13 of the digesters need to be rebuilt. San Jose Staff estimates that one digester will be rebuilt per year. San Jose Staff is looking at the economics of rebuilding beyond the 13 digesters. The approximate cost to rebuild a digester is \$5 Million a piece. The rebuilt digesters will be fixed roof digester.

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Director Gatto asked about the line item Plant Infrastructure Improvements and what does it include. DI indicated that this item is made up of multiple projects as described in Item #11 in the Responses to Cupertino Sanitary District Questions. These projects are funding in the SRFL, SBWR, Grants. DI will provide more information to CuSD Staff.

Director Lee asked about water recycling and why should CuSD pay when we do not receive recycled water yet we paid into a \$250 million plant.

JS stated that any water that is recycled is benefit to the area. For the industry that wants to use recycle water, they pay for the capital costs and pay for the water. At some point the water will be a valuable commodity and the Tributary Agencies will benefit.

Director Gatto asked who administers the recycle water.

JS stated that the Treatment Plant administers the recycle water. San Jose is working with the SCVWD to use recycle water for ground water recharge.

Director Gatto asked if storm water can be collected, treated and reused.

JS indicated that based on the number of storm water outfall, it would be difficult but not impossible.

Director Lee stated that CuSD does not receive recycled water so; we do not receive the benefit.

Director Gatto with the consensus of the Board that CuSD staff write a "Thank you" letter, signed by President Bosworth, to both John Stufflebean and Dale Ihrke for attending the meeting and answering questions.

After discussion, on motion of Director Bosworth and seconded by Director Gatto, it was unanimously ordered that the Financial Statement for the month of May, 2009 be approved as written and the following bills be paid:

<u>WARRANT NUMBER</u>	<u>FUND</u>	<u>AMOUNT</u>	<u>PAYEE</u>	<u>DESCRIPTION</u>
16245	M&O	\$116,941.18	Mark Thomas & Co., Inc.	Office Expense \$400.00 Management Services \$26,759.41 Engineering Services \$34,265.04 Repairs & Maintenance \$53,575.23 Capital Outlay-Sewer Const. \$1,941.50
16246	M&O	\$938.76	Dooley Insurance & Financial Svcs.	Insurance
16247	M&O	\$4,156.00	Atkinson-Farasyn, LLP	Legal
16248	M&O	\$170.00	Cunha Landscape Services, Inc.	Repairs & Maintenance
16249	M&O	\$22,345.26	Able Underground Const.	Repairs & Maintenance
16250	M&O	\$15,144.00	Roto Rooter Sewer Service	Repairs & Maintenance
16251	M&O	\$4,750.00	Mello Pipelines, Inc.	Repairs & Maintenance
16252	M&O	\$3,000.00	Hadronex	Repairs & Maintenance

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16253	M&O	\$1,502.22	ITT Water & Wastewater USA	Repairs & Maintenance
16254	M&O	\$393.94	AT&T	Utilities
16255	M&O	\$531.14	AT&T Flow Monitoring	Utilities
16256	M&O	\$579.05	AT&T Managed Internet Service	Utilities
16257	M&O	<u>\$3,770.89</u>	Pacific Gas & Electric	Utilities
<b>Total</b>		<b>\$174,222.44</b>		

President Bosworth presented the Board with correspondence from WEF regarding 24<sup>th</sup> Annual WaterReuse Symposium. On motion by Gatto and seconded by Harrison, Staff was directed to note in file.

President Bosworth presented the Board with correspondence from City of San Jose regarding Dental Amalgam Program and Permit Flyer. On motion by Gatto and seconded by Harrison, Staff was directed to note in file.

Staff member Machida reported on the Regular Meeting of the San Jose/Santa Clara Water Pollution Control Plant Technical Committee (TAC), held on June 8, 2009. The main discussion focused on the proposed Operations and Maintenance and CIP budgets of the WPCP.

Director Gatto reported on the Regular Meeting of the San Jose/Santa Clara Water Pollution Control Plant Advisory Committee (TPAC), held on June 11, 2009. Director Gatto also stated that the discussion focused on the proposed City of San Jose Treatment Plant budgets. He also informed the Board that the City is considering an agreement to lease property to a firm that uses a dry anaerobic energy recovery process to collect bio-gas. The land is adjacent to the plant and some of the gas could be available to the plant to run generators.

President Bosworth reported on the Special District Meeting held on June 8, 2009 at the Santa Clara Valley Water District Offices. County Supervisor Cortese was the speaker and he talked about the economy of California and the budget woes.

Manager Tanaka presented the Board with the CuSD Draft Budget for FY 2009-2010. Director Gatto requested that in the Proposed Budget spreadsheet for FY 2009-2010, the columns "Unencumbered Balance" and "Monthly Average" should be eliminated and a new column "Budget Actual for FY 2008-2009" be added. The Board also wants to know the breakdown of the Director's Fees. Director Lee requested clarification on why we are seeing a shortfall on revenue. Staff explained that we are waiting for the 2<sup>nd</sup> payment from the tax roll, the interest payment is underperforming from our original expectations, and we are also seeing a reduction in water use which translates into lower sewer fees from non-residential accounts. After receiving the 2<sup>nd</sup> tax roll payment but with the reduction in the interest and the reduction in sewer service charges, the revenue projections will still be lower than budgeted. Director Lee asked why we spent \$2.5 million more in the TP Outfall and Capital Improvement line item. Staff member Machida explained that the Board approved \$1.8 million to refinance the 2005 variable bond, \$390K was our share to purchase the insurance to re-finance the bond and \$305K was spent for our cost of the 3<sup>rd</sup> quarter payment of FY 2007-2008. Director Lee asked what criteria were used to prioritize the CIP projects. Staff member Bowersox explained that the Sanitary Sewer Management Plan was used to establish the priority of the projects. Director Gatto asked if Staff received the information from San Jose to pay off the remaining bonds. Staff member Machida reported that the information has not been provided by San Jose but we learned that payoff of the bond can not commence until 2014. Staff will continue to get the information from San Jose to payoff the bond.

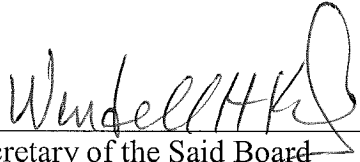
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On motion by Director Gatto and seconded by Director Harrison with an amendment by Director Lee directing Staff to continue to get clarification on the budgets from the City of San Jose. The motion was unanimously approved.

Counsel Toppel presented a staff report to the Board regarding Agreement between Cupertino Sanitary District and Harold S. Toppel and Atkinson-Farasyn, LLP, Amendment to Contract for Legal Services. Counsel Toppel will prepare a historical review of the hours spent and report back to the Board at the next meeting.

On motion properly made and seconded, at 11:01 p.m. it was unanimously ordered that the meeting be adjourned.

  
Secretary of the Said Board

  
President of the Sanitary Board