

NEVADA IRRIGATION DISTRICT

BOARD OF DIRECTORS

MINUTES

May 26, 2010

The Board of Directors of the Nevada Irrigation District convened in regular session at the District's main office located at 1036 W. Main Street, Grass Valley, on the 26th day of May, 2010 at 9:00 a.m.

Present were W. Scott Miller, President; Nancy Weber, Vice-President; John H. Drew, Jim Bachman and Nick Wilcox, Directors.

Staff members present included Ron Nelson, General Manager; Tim Crough, Assistant General Manager; Marie G. Owens, Finance Manager/Treasurer; John Kirk, Operations and Maintenance Manager; Gary King, Chief Engineer; Yvonne DuBose, Human Resources Manager; Jeff Meith, District Counsel; and Lisa Francis Tassone, Board Secretary.

MINUTES – April 28, 2010 Meeting

Approved the Minutes of the Board of Directors' meeting of April 28, 2010, as submitted. M/S/C Drew/Bachman

ANNEXATIONS: City of Nevada City – Island Exclusions

Director Drew made a motion to adopt Resolution No. 2010-26 (Making Application for Annexation of Land to Nevada Irrigation District – City of Nevada City – County of Nevada), and authorized the General Manager to execute the necessary documents. Director Bachman seconded the motion.

Motion passed on the following roll call vote:

Division I	Absent (Recused; left the room)
Division II	Aye
Division III	Aye
Division IV	Aye
Division V	Aye

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CATTLE GRAZING LEASE NO. 2 – Assessor’s Parcel No. 27-150-02

Director Wilcox requested that this matter be pulled from the consent agenda. He stated that he understands the desire to reduce rent when beef prices decrease. He asked if the Lease Agreement also includes a provision to raise rent when beef prices increase.

Tim Crough, Assistant General Manager, stated that the Maintenance and Resource Management Committee intended for the Agreement to go up or down depending on the actual price of cattle in the original agreement. The existing agreement expires at the end of this year. This item is a clean-up matter and acknowledges the original intent (decrease the rent after the third year). The Committee recommended \$1,900 based on the cattle prices and this was acceptable to the lessor. The lease will be revisited in several months, and Staff anticipates having a new lease in place in January 2011.

Mr. Crough stated that the Maintenance and Resource Management Committee is trying to orchestrate the leases with the actual acreage being grazed, actual price of beef, the number of cattle and the length of time the grazing will occur.

Approved amendment to Cattle Grazing Lease No. 2 (Assessor’s Parcel No. 27-150-02) adjusting rent to reflect actual market conditions for cattle, and authorized the General Manager to execute the necessary documents. M/S/C Wilcox/Drew

WARRANTS

Approved the following warrants: Yuba-Bear Revolving Fund Nos. 22716 through 22791, inclusive; General Fund Revolving Account Nos. 50111 through 50443, inclusive; Recreation Fund Nos. 2282 through 2322, inclusive; and Payroll Direct Deposit and Warrant Nos. 53910 through 54268. M/S/C Weber/Drew

STRATEGIC PLAN: Objective 13 (Resource Planning)

Tim Crough, Assistant General Manager, stated that Staff is presenting criteria for Strategic Plan Objective No. 13. He noted that Staff usually presents two Objectives, but due to the start of the District’s irrigation season, there was low attendance in the planning sessions. Because of this, only one Objective is being presented to the Board at this time. This Objective turned out to be far more complicated than Objectives dealt with in the past. He introduced Dale Smith, Drafting Technician, and Bob Carr, Hydro Technician, who put forth a great deal of effort to develop the criteria. Mr. Crough, Mr. Smith and Mr. Carr are available to answer questions by the Board on the proposed criteria for Objective 13.

STRATEGIC GOAL: Asset Management	
13.0	OBJECTIVE: Resource Planning Design, develop and implement a strategy for resource planning
EVALUATION CRITERIA FOR 2010/2011:	
	√ = MET

<p>13.1 13.1.1</p>	<p>RESOURCE EVALUATION: Create a plan or method to evaluate District resources such as the SWOT method (define Strengths, Weaknesses, Opportunities and Threats). Complete by October 2010. List all internal and external District resources, by April 2011.</p>	
<p>13.2 13.2.1 13.2.2</p>	<p>INTERNAL AND EXTERNAL HUMAN RESOURCES: Internal Human Resources - Develop & implement a strategy to efficiently utilize current & future Human Resources, by including the following items, before August 2011:</p> <ul style="list-style-type: none"> • Identify current skill sets and District needs • Develop a questionnaire to determine. skills/knowledge/interests of current & future employees • Determine and create appropriate training needs for District employees, including cross training different skill sets. • Establish a mentoring program to enable the transfer of knowledge and experience between District employees. • Develop and implement an Inter-departmental Team Building program to better the communication & understanding between District Departments <p>External Human Resources – Develop a list of external resources to use for development of SWOT analysis of current or future resources, including physical resources, resource expansion, resource utilization, and resource management. Complete by July 2011.</p>	
<p>13.3 13.3.1 13.3.2</p>	<p>PHYSICAL RESOURCES: Perform a SWOT evaluation on physical resources such as buildings, equipment, tools and property. Evaluate cost benefits of retention, maintenance, and replacement of each. Complete by December 2011. Identify and prioritize concerns and/or issues of each resource and provide recommendations on appropriate periodic timeline for maintenance and replacement for each resource. (Use manufacturers’ recommendation or industry standards if applicable.) Complete by December 2011. Assess environmental considerations in the above evaluation, by March 2012.</p>	
<p>13.4</p>	<p>RESOURCE MANAGEMENT: Design, Develop & Implement a system to manage the current and future internal & external resources to the District, by including the following items. Complete by September 2012, utilizing the priority schedule in 13.3.1</p> <ul style="list-style-type: none"> • Identify needed Human Resources to implement the management of District resources (reference 13.2) • Review existing methods to maintain District Records & Data • Investigate and develop policies and procedures to share resources with other agencies 	

	<ul style="list-style-type: none"> • Identify and classify life expectancy and/or life limiting factors • Utilize or modify current systems to track resources for better utilization. • Research other potential systems or methods to optimize management practices • Update the Management Model to accommodate changes in Regulatory Mandates • Review and update District policies and procedures as related to public and environmental issues and concerns 	
13.5	<p>RESOURCE UTILIZATION: Design a process to evaluate/re-evaluate the utilization of District resources, by December 2011. The evaluation should include the following considerations:</p> <ul style="list-style-type: none"> • Education of District employees and the general public • Conservation measure to District resources • Protection of District resources • Expansion of District resources • Public and Employee input concerning District resources • Upgrade and replacement of life limited resources • Intra-agency relations and sharing of resources 	

Director Drew questioned 13.3 (Physical Resources) regarding the evaluation of cost benefits of retention, maintenance and replacement of each. He asked if retention would involve sale as a possibility.

Mr. Carr explained that in the process of evaluating the retention, a determination would be made whether or not it would be cost effective to retain the equipment, sell the equipment and/or replace the equipment.

Director Weber asked how criteria for 13.3 will be met with existing Staff and whether or not additional Staff will need to be hired to accomplish the Objective.

Mr. Carr responded by stating that it might not be necessary to add Staff. A partial evaluation is currently underway and the remainder of the list can be developed by existing Staff.

Director Weber stated that dealing with property the District owns that may not be needed has been included in the Strategic Plan as an Objective for some time. When the Objective was first introduced there was discussion about hiring an employee to perform an evaluation of these properties. She would really like to see this happen “in her lifetime.”

Director Drew stated that the Board should review the list of surplus property owned by the District. He suggested that this matter be presented to the Maintenance and Resource Management Committee.

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Mr. Crough pointed out that within the District's Geographic Information System (GIS) there is a map that displays all of the District's landholdings. In addition, the Accounting Department has a list. He stated that this Objective will require additional Staff or consultants. This will be determined when an evaluation is made of both the District's internal and external resources (13.2).

Jeff Meith, District Counsel, reminded the Board that with regard to the Yuba-Bear Project, until 2013, there is no net benefit to the District for the consideration of the sale of surplus property within the Project area. It would simply offset operations and maintenance expenses.

Director Weber stated that there are a number of properties to consider that are not part of the Yuba-Bear Project.

Mr. Crough stated that it would be appropriate to present this Objective to the Maintenance and Resource Management Committee and will plan to place this matter on the agenda for the October 2010 Committee meeting.

Mr. Crough stated that Gary King, Chief Engineer, was helpful in identifying the Strengths, Weaknesses, Opportunities and Threats (SWOT) method which is part of what Staff will be working on between now and October.

Adopted criteria for the District's Strategic Plan, Objective 13 (Resource Planning). M/S/C Weber/Drew

CEMENT HILL WATER SUPPLY PROJECT (Community Facilities District No. 2007-1)–
Easement Acquisitions

Matthew Crowe, Senior Right-of-Way Agent, stated that he is requesting authorization for the General Manager to issue Notices of Intent on three parcels located within the Cement Hill Water Supply Project. Two of the parcels involve estranged parties that Staff is experiencing difficulty having both property owners communicate. Staff has been in contact with the property owner of the third parcel. The property owner has indicated that he will sign the Possession and Use Agreement and seek a second appraisal. Subsequent to receiving the Possession and Use Agreement, the property owner has indicated that he wanted to turn the matter over to his attorney.

Director Weber stated that she and District Staff and the contractor met with the Daisy Blue Mine residents about ten days ago. The meeting was positive and many accommodations were made from the District and from the property owners. Another meeting is scheduled for May 28, 2010. She asked why two of the property owners in this area are moving forward when the rest of the property owners are not ready to move forward until some issues are resolved.

Mr. Crowe explained that the two property owners included in today's presentation are outside of the group of property owners Director Weber referred to.

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Director Drew stated that it appears that the easements are located within the roadway.

Mr. Crowe responded in the affirmative.

Director Weber stated that the issue is trees.

Director Weber added that Staff has spent hours on these negotiations due to some complicated situations.

Authorized the General Manager to issue Notices of Intent (NOI) to consider commencement of eminent domain proceedings for Assessor's Parcel Nos. 04-030-38, 32-480-13 and 32-650-11 within the Cement Hill Water Supply Project. M/S/C Wilcox/Drew

PERSONNEL – Safety Analyst Job Description

Tim Crough, Assistant General Manager, presented a recommendation from the Administrative Practices Committee to approve a job description for the new position of Safety Analyst. This position has been budgeted for several years, and has been filled with efforts by consultants and Mr. Crough. This has been done strategically to grow a new safety culture by means of building safety into everything employees do. It is now time to fill the position with a permanent in-house employee. This new employee will continue efforts to grow the new culture working initially with the District's consultants. The consultant has been helping Staff develop the job description that meets the District's needs. This position could have been housed in the Maintenance Department or the Operations Department, but it was felt that the position should have the authority of the General Manager, crossing all Departments, while not having a "police officer" effect on Staff. This position will coordinate, analyze and maintain records with regard to training. In addition, this position will assist in facilitating the training and will be available as a resource to supervisors and managers.

President Miller stated that what was brought up at the Administrative Practices Committee meeting was the fact that if the position was a Safety Officer, the employees would relinquish safety responsibilities to the Safety Officer. With a Safety Analyst, every employee would be responsible for maintaining a safe working environment.

Mr. Crough explained that in the Staff Report, he had made a recommendation without having the benefit of the Finance Manager's input to approve a budget amendment. After consulting with the Human Resource Manager and the Finance Manager, he would like to modify his recommendation to have the Board consider approving the job description for the Safety Analyst remaining at the B45 range. If necessary, a budget amendment may be presented in the future.

Marie G. Owens, Finance Manager/Treasurer, explained that the 2010 budgeted amount for the salary is \$61,900, which is approximately Step 2 or 3 of a B45 salary range.

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Director Weber asked why the position could not be filled at Step 1 of the B45 range.

Mr. Owens stated that the position could be filled at Step 1, but the budgeted amount affords Staff some flexibility if there are problems recruiting for the position.

Mr. Crough stated that the job description has been reviewed by the recognized bargaining groups. All of their comments have been incorporated in the version submitted to the Board. One additional concern was mentioned that the position did not appear to have much authority. Mr. Crough reiterated that the position has the "authority of the General Manager" and by changing the culture "we want the hard hats on at all times, not only when a safety employee shows up."

Director Drew referenced working conditions in the job description. He expressed concern with essential functions requiring maintaining physical condition necessary to sit at a desk for a long period of time. He asked how this can be defined and quantified.

Mr. Crough explained that this is standard language that will be included in many of the District's job descriptions. The position of Safety Analyst will predominantly be an office position, and will also require frequent site visits. The employee will have to be able to negotiate construction sites while maintaining an office position.

President Miller stated that this language stems from workers' compensation discussions. If an applicant cannot sit at a desk for a long period of time, the District would not be able to hire the individual. The language serves as protection to the District.

Jeff Meith, District Counsel, pointed out that Staff can only ask questions about physical conditions to the extent that the position requires specific working conditions.

Director Drew stated that he does not like the language in this part of the job description. There is no logic to it.

Director Wilcox asked if this position is required by law, and if it helps reduce the District's insurance rates.

Mr. Crough explained that the Special Districts Risk Management Authority (SDRMA) does require that the District has a designated safety officer. Currently, the safety officer is Mr. Crough. There is not a legal requirement to have a safety officer position, but the District is faced with a number of legal requirements that fall on the shoulders of someone who should be responsible for insuring compliance (maintaining MSDS sheets, safety data, conducting training, documentation, etc.).

Director Weber made a motion to approve the job description for the Safety Analyst as a new regular full-time position at the B45 salary range. Director Bachman seconded the motion.

Motion passed on the following roll call vote:

Division I	Aye
Division II	No
Division III	Aye
Division IV	Aye
Division V	Aye

President Miller added that this matter was discussed at length at the last Administrative Practices Committee meeting. Ron Nelson, General Manager, is evaluating all of these issues very carefully, and currently, there are consolidations of District Departments being made on the Management Team.

OPERATIONS AND MAINTENANCE MANAGER – John Kirk

Ron Nelson, General Manager, announced that upon Don Wight's recent retirement as Operations Manager, Mr. Nelson has appointed Mr. Kirk as the new Operations Manager. Mr. Kirk will also exercise oversight of the Maintenance Department. He added that some of the employees in the Maintenance Department will be taking on expanded roles.

The Board applauded the appointment of Mr. Kirk as Operations and Maintenance Manager.

Mr. Kirk thanked the Board for their vote of confidence. He will take this position very seriously as he has other positions he has held at the District. He has allegiance to this District and to this Board, and the General Manager, and his Management Team. He will do everything he can to not let the Board down and to always continue to put the District and its rate payers first and foremost.

President Miller congratulated Mr. Kirk. Mr. Kirk's special skill set and experience and allegiance to the District has enabled Mr. Nelson to have the option to consolidate the two management positions. This is a tribute to Mr. Kirk's performance at the District.

Director Wilcox congratulated Mr. Kirk and stated that he looks forward to working with him. Director Wilcox stated that while he was involved with the Water and Hydroelectric Operations Committee, he received hydro operations data and data on reservoir conditions, etc. He asked if this information could be made available to the public on the District's website.

Mr. Kirk stated that he will work on making this information available.

WATER SUPPLY - Update

John Kirk, Operations and Maintenance Manager, provided the Board an update on the District's water supply. The District will be within 500 acre feet of full capacity for all reservoirs. The reason the District is not 100 percent is because of operational and

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storage issues related to Jackson Meadows Reservoir. The Federal Energy Regulatory Commission (FERC) does not allow the District to spill over the radial gates of Jackson Meadows. The only reservoirs that are not currently spilling are Bowman, French and Jackson Meadows, but they will all fill.

Mr. Kirk explained that Jackson Meadows has the same radial gates that Folsom Dam has. As part of the Part 12 inspection and the Potential Failure Mode Analysis (PFMA) session that was conducted about four or five years ago, FERC wanted the District to conduct a finite element stress analysis of the radial gates. It was agreed with FERC that instead of conducting a finite element stress analysis or dropping the spring pool level 15 feet below spill line of the bottom of the radial gates (which is a significant amount of water loss for the District), the gates would not be lowered until after May 1. This keeps the pool to a usable pool for the District while reducing the chances of spilling over the top of the radial gates.

Ron Nelson, General Manager, also reported that power production will be very good this spring and early summer. The "dark cloud" is that water meters are not spinning. Water retail sales will be off what they would normally be this time of year due to weather conditions. But, if there is a choice over water supply or no water supply, water supply would be chosen.

HIGHWAY 49 / LA BARR MEADOWS ROAD WATER MAIN RELOCATION PROJECT- Update

Ron Nelson, General Manager, reported that Gary King, Chief Engineer, has kept Mr. Nelson updated on the Project. Mr. King shared that construction crews ran into some rock. This will drive up the costs, but Mr. King is managing this very carefully.

Mr. King stated that there are two items that will involve change orders. One is a change order regarding rock which will amount to approximately \$70,000 to \$80,000. The rock was underneath the road. Other alternatives to remove the rock will be much more expensive. The other change order will involve removing old pipelines. He pointed out that a portion of these change orders will be paid for by Caltrans.

ASSOCIATION OF CALIFORNIA WATER AGENCIES (ACWA) – 2010 Spring Conference (Report by President Miller)

President Miller stated that he had a valuable, abbreviated visit to the ACWA Spring Conference. He attended two sessions: one session on desalinization in the Monterey area and another session on finding sufficient revenues during the water crisis. With regard to desalinization, he stated that there is a cap on the cost of \$2,400 per acre foot. The perspective is that although it is cost prohibitive, many of the coastal communities do not want to be dependent upon exterior waters. With regard to finding sufficient revenues during the water crisis, he was fascinated to find out about the Metropolitan Water District. He did not realize that they are purely a wholesale operation and distribute water to member agencies. Eighty percent of their costs are fixed and they have decreased 400 employees since 1999. They have curtailed water

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to their members by 40 percent, and to do this, they have implemented punitive pricing. He is not advocating this, but it was interesting to learn about. They used to sell 2.2 million acre feet, and now they sell 1.9 million acre feet per year. The bottom line is that they raised their rates 12 to 15 percent and they will continue this for another five years.

President Miller also attended the California Association of California Power Producing Agencies (CAPPA) meeting. PG&E and other water agencies involved with Federal Energy Regulatory Commission (FERC) relicensing were in attendance. Updates were made by all of the agencies in attendance. The next morning he participated in an informal breakfast with representatives from PG&E. He was able to ask questions about conveyance. It was suggested that depending on the risk the District takes will determine the benefit the District receives. This is such an important topic, and he would like to have this matter presented to the Board of Directors in June 2010. The item could involve developing a negotiation philosophy and perhaps establishing an ad hoc committee.

Jeff Meith, District Counsel, suggested having a discussion and reaching consensus on the process of approaching the next generation power agreement. He will provide a recommendation to the Board for their consideration.

Director Weber asked if President Miller brought back any materials from the session on agricultural water measurement and volumetric pricing.

President Miller was not able to attend that session.

Mr. Meith stated that he attended the session, and the only handout was the statute. He stated that the Department of Water Resources (DWR) has begun the process of developing and looking at Best Management Practices. The DWR had no practical suggestions to offer relating to measurement or pricing.

Mr. Nelson stated that the District continues to be involved in these matters, and he will provide information to the Board as it becomes available.

BAY-DELTA TOUR

President Miller expressed an interest in attending the Bay Delta Tour scheduled for July 14 – 16. The Board concurred that President Miller should attend the Tour.

ASSOCIATION OF CALIFORNIA WATER AGENCIES (ACWA) – Region 3: Tour and Program: Water Storage on the Foresthill Divide

Ron Nelson, General Manager, announced that ACWA is sponsoring a Tour and Program: Water Storage on the Foresthill Divide.

Director Bachman expressed an interest in attending this Tour and Program.

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INVESTMENT PORTFOLIO ANALYSIS

Marie G. Owens, Finance Manager/Treasurer, stated that she was asked to make this presentation as a result of the auditor's disclosure to the Board that the District has an unrealized loss on its investment portfolio as of December 31, 2009. Director Weber asked her to provide the Board with an in depth presentation on the investment portfolio and identify those investments that are potentially more subject to volatility in the market place.

Ms. Owens provided the Board the following:

SCHEDULE OF INVESTMENTS

		<u>Maturity</u>	<u>Yield</u>	<u>Market Value 12/31/2008</u>	<u>2009 Purchase Price</u>	<u>Market Value Adjust</u>	<u>Market Value 12/31/2009</u>	<u>2010 Purchases/Sales Price</u>	<u>Market Value Adjust</u>	<u>Market Value 4/30/2010</u>
<u>Union Bank</u>										
Notes	FFCB	9/23/2011	1.25%		1,998,000	(3,000)	1,995,000	(2,000,000)	5,000	-
Notes	FHLB	4/19/2012	1.65%		2,500,000	775	2,500,775		10,950	2,511,725
Notes	FHLB	10/5/2012	2.13%		2,500,000	-	2,500,000	(2,500,000)	-	-
Notes	FHLB	1/15/2013	4.50%		2,032,144	(44,663)	1,987,481	(1,985,000)	(2,481)	-
Notes	FHLB	2/5/2014	2.88%		3,000,000	(1,860)	2,998,140	(2,998,140)	-	-
Notes	FHLB	4/7/2014	3.00%		2,000,000	620	2,000,620	(2,000,000)	(620)	-
Notes	FHLB	2/17/2016	3.83%		4,975,000	(18,750)	4,956,250		106,250	5,062,500
Notes	FNMA	3/19/2012	2.51%		2,999,250	14,820	3,014,070	(3,000,000)	(14,070)	-
Notes	FNMA	3/18/2014	2.38%		4,500,000	50,625	4,550,625		-	4,550,625
Notes	FNMA - step up	3/16/2015	1.50%					5,000,000	4,700	5,004,700
Notes	FNMA	3/24/2015	2.50%						-	-
Notes	FNMA	5/26/2015	2.50%						-	-
Strips	US Treasury	8/15/2010	3.67%	1,986,220		9,660	1,995,880		2,940	1,998,820
Strips	US Treasury	5/15/2011	3.40%	1,975,140		8,920	1,984,060		9,820	1,993,880
Strips	US Treasury	8/15/2011	3.40%	1,958,000		13,880	1,971,880		13,800	1,985,680
Strips	US Treasury	11/15/2012	4.02%	1,889,080		18,780	1,907,860		29,800	1,937,660
Strips	US Treasury	11/15/2015	4.25%	1,695,720		(29,540)	1,666,180		51,420	1,717,600
Strips	US Treasury	11/15/2018	4.25%	1,491,320		(85,740)	1,405,580		58,740	1,464,320
Strips	US Treasury	11/15/2019	4.55%	708,180		(44,630)	663,550		26,280	689,830
Strips	US Treasury	5/15/2021	4.66%	660,790		(54,440)	606,350		25,410	631,760
Strips	US Treasury	11/15/2021	4.52%	647,110		(60,120)	586,990		26,260	613,250
Strips	US Treasury	11/15/2022	5.10%	627,390		(76,370)	551,020		29,040	580,060
Strips	US Treasury	5/15/2023	4.75%	607,930		(71,200)	536,730		28,330	565,060
Strips	US Treasury	11/15/2023	4.53%	600,210		(81,410)	518,800		29,650	548,450
Strips	US Treasury	5/15/2024	4.43%	601,710		(98,720)	502,990		30,340	533,330
Strips	US Treasury	11/15/2024	4.33%	606,450		(118,400)	488,050		30,140	518,190
Strips	US Treasury	2/15/2025	4.40%	601,590		(122,020)	479,570		31,540	511,110
TOTAL				16,656,840	26,504,394	(792,783)	42,368,451	(9,483,140)	533,239	33,418,550

Ms. Owens explained that US Treasury Strips can be described as coupons on a T-Bill that have been detached from the T-Bill and sold separately. How this investment works is that it is usually sold at a severe discount and the value of the instrument accretes over time until maturity at which point in time the face value will be received for the instrument. The first Strip in the portfolio will mature on August 15, 2010. The cost of this investment was \$1.6 million when the Strip was originally purchased. The market value of this instrument has steadily increased over time. The District will receive \$2 million upon maturity.

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In 2009, Ms. Owens purchased securities (Federal Farm Credit Bureau, Federal Home Loan Bank and Federal National Mortgage Association). The investments are legitimate, legal investments according to the California State statutes, and are actually the more conservative investments in the portfolio. There was a market value adjustment on the entire portfolio. The US Treasury Strips which experienced substantial gains in years past account for the greatest amount of the \$792,783 unrealized loss in 2009.

Ms. Owens pointed out that most of the instruments that she purchased in 2009 that have maturity dates of 2012, 2013, 2014, etc. have been called by the Federal Government. She did not sell these instruments. They were called because they had substantially higher interest rates than what the market was bearing. They issued similar instruments at a lower interest rate.

As of April 30, 2010, many of the US Treasury Strips that had unrealized losses in 2009 are now starting to increase in value. The Governmental Accounting Standards Board and Generally Accepted Accounting Principles require Ms. Owens to mark the District's investments to market at the end of each fiscal year.

Director Wilcox asked if the District made money on the securities that were called by the Federal Government.

Ms. Owens stated that when the Federal Home Loan Bank security was purchased in 2009, it had a 4.5 percent yield which was unheard of. However, she did pay a premium on it. The security was called and it appears as though the District lost \$44,000 plus \$2,400. But, the District earned 4.5 percent on \$2.5 million. The earned interest income is above and beyond what the market was bearing to offset the loss on the investment. So, the market value loss was more than offset by the extraordinarily high investment earnings income.

Ms. Owens summarized her presentation by stating that the District has a very safe, secure and conservative portfolio. The District is not in the business to buy and sell securities to make money; the purpose is to secure the District's reserves with conservative, low risk investments.

DS CANAL FLUME REPLACEMENT #13 – Concerns of Director Weber

Director Weber stated that she has a problem and requested assistance from the Board. She distributed a photograph of the DS Canal Flume #13 taken about three days prior to being cited by the State Water Quality Control Board, and the photographs accompanying the Notice of Violation.

Director Weber read the following statement into the record:

History: In March, the replacement for Flume #13 construction began – during a period of protracted spring rains and two snow storms. It was deemed an

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emergency and a section of the old flume displayed at the NID Board meeting on March 28, 2010 indicated that was the case. My notes on the DS replacements indicate that it was declared failing at a Board meeting on October 25, 2007. The State Water Quality Control Board issued a citation on April 13, 2010.

- 1) Why was the project initiated under unfavorable weather conditions when it had been known for over two years that it needed to be replaced?
- 2) Why were the Best Management Practices not in place? Why wasn't the Storm Water Protection checklist on site (as noticed by the State Water Resources Control Board inspector)? Had adequate training been provided the NID construction supervisor?

Observation, supervision of the project: In January, I hiked up the berm to visit the site and observed the hypalon lining the flume to prevent leaks. Later that month, during a snowstorm, I visited the site, but went only to the staging area; there was six inches of oozing mud. At my request, I accompanied Tonia Herrera in early April to visit the site and observed saturated soil with contractors using compactors to put lime into the trench to stabilize the soil. At my request on April 16, 2010, Ron Nelson accompanied by Gary King, met me on Banner Mountain Trail to visit the site. Gary was driving; he went in the opposite direction of the location of the site until I corrected him.

- 1) Why was I the only one in the vehicle who knew the location of the site?
- 2) What supervision had been given to this project?

Public disclosure: Public disclosure has been limited to an erroneous article in The Union and currently on the NID website. Banner Mountain residents who will see seven future flume replacements and a major pipeline project in the next year deserve to know what happened on this project and to have the assurance that future projects will be managed to prevent similar situations.

I have been unable to resolve the above issues internally. I request that my concerns be addressed and responded as an agenda item for the Board meeting on June 9, 2010.

When she was obtaining information from the State Water Quality Control Board, she became aware that the District has two citations from the State for the Elizabeth George Water Treatment Plant Expansion Project, and will be fined \$10,000 if the District does not clean up the site.

Knowing that she cannot resolve these issues internally has left her "pretty darn frustrated" and feeling insecure in terms of what she will be able to tell her constituents. She has for a long while promoted the "new NID and how things are done differently." This is an embarrassment to her, and she thinks the District needs to make a public disclosure (a study on how to prevent these problems, and an assurance to the property

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owners that reside in areas where the District will be installing projects in the future that this will not happen to them).

Director Drew stated that Director Weber has brought up legitimate concerns. He is hoping that Staff is aware of these concerns. He stated that the replacement of Flume #13 was an emergency and could not have happened at a worse time or in a more difficult location. Those situations manifested during that period of time which has created a virtually unacceptable situation.

Director Weber asked if there was anything that could have been done to replace Flume #13 at a more favorable time of year (i.e. in the fall before the rains start).

Ron Nelson, General Manager, stated that the responsibility for this Project is his. If Director Weber is disappointed with the performance, that disappointment should be directed to him. He is responsible for all activities that occur with the Project. Staff did critique the job after it was done, and reviewed the construction, the time of year and the citation looking for ways to make sure that with future projects these problems can be avoided if at all possible. It has also resulted in the Management Team arranging for some additional training for District Staff, so that Staff can respond accordingly in the future under these circumstances. He stated that it is safe to say that if Staff has the discretion, projects would be avoided in the wet season. This did not happen; the construction site is a messy construction site that occurred in the middle of very bad rain storms. Staff will do the very best to avoid this situation in the future.

Director Drew stated that he wants to be supportive of Director Weber's concerns. She has brought up many legitimate points for a situation that is very difficult. In moving forward with the remaining sections of flume, the critical path should be developed to evaluate and identify conditions (weather; having the road be ready, having clear directions, notifying neighbors, etc.).

Director Weber stated that bringing up these issues is not her role, but she is going to defend her constituents. That will be the bottom line for her. She would appreciate a report back to the Board in early June, if possible (as she requested in her statement), and some assurance to the residents on Banner Mountain that this situation will not happen to them during the Lower Cascade Canal / Banner Cascade Pipeline Project.

Director Drew stated that some of the procedural steps taken regarding soil stabilization, roadside waddles, etc. should be evaluated in addition to all other possible methods to stabilize any soil environment.

She distributed a packet of photographs and the violation received by the State Water Quality Control Board on the Elizabeth George Water Treatment Plant Expansion Project.

Director Wilcox asked if Flume #13 was one of the flumes that had to be replaced in-line.

May 26, 2010

Gary King, Chief Engineer, stated that Flume #13 was in bad condition. The District was in the middle of the California Environmental Quality Act (CEQA) process. This process took much longer than anticipated, and was not supported by numerous individuals. The property owners requested that this Flume remain in-line. Customers need to continue to be served while the flume is being replaced. This Flume was at risk. He stated that he will stand by one thing - the violation the District was recently cited for is much less serious than if Flume #13 failed. He referenced North Combie which failed three times. The last time it failed, the District was cited and fined. The violations were not for discharge off the site, but for some housekeeping issues on site.

Director Wilcox stated that another flume that will be replaced in-line is Flume #19 which is on Mr. Robbins' property. If at all possible, the District should avoid what occurred on Flume #13 on the Robbins' property.

Mr. King stated that if construction starts on the Robbins' property and there is the same rainfall pattern, there will not be any discharge and improvements will be made. Once the pipe is cut, the District is committed.

Mr. King stated that he is frustrated with what is "coming out of the Department of Water Resources." Staff is making improvements and adjustments. Out of all of the complaints, one has reached his desk. Mr. King stated that the Notices of Violations are posted on the District's website. He met with Save Our Historic Canals (SOHC) about two weeks ago. SOHC was adversarial with the District in the past, but this recent meeting was a positive meeting. In Mr. King's professional opinion, Flume #13 needed to be replaced.

Director Drew agreed that replacing Flume #13 was an emergency. It was the "perfect storm."

Mr. King stated that when he came to the District, Staff was having trouble building projects. In the last couple of years, there has been a struggle moving projects forward. He cannot promise the best weather will occur when construction is under way, he cannot promise that rock will not be hit, and he cannot promise people will not be upset with the District. The District has a responsibility to provide water to the customers.

President Miller stated that he is compassionate to Mr. King's circumstances. As a parallel to medicine, the results are outcome driven. He stated that Mr. King is doing a magnificent job at orchestrating the outside expectations and the needs of the District. He trusts that Mr. King will learn from this and move on.

Director Weber reiterated that she would like answers to her questions that she read into the record to be answered at the next Board of Directors' meeting if possible.

May 26, 2010

President Miller requested that Director Weber's concerns and questions be placed on the next Board of Directors' agenda, including an update on the Project and how problems will be avoided in the future.

Director Weber stated that, with all due respect, the public needs to be informed, and a disclosure must be made to the property owners on Banner Mountain with the assurance that this will not happen again. She suggested calling a public meeting to discuss the matter with the property owners. She would like to hear from the other Board members.

Jeff Meith, District Counsel, stated that Staff needs to agendize this matter to include a response to Director Weber's questions and an update on the Project. The Board can certainly have a discussion about where to go from here and can then decide the next step.

SPRING WEATHER

Director Drew reported that with regard to the recent frost, the vegetable growers took a hit (including him). More importantly, in the last two storms which have been cold and wet, the fruit growers took a hit. The situation is called bacterial blast. Because of bacteria that are naturally present and being blown by the wind and rain, etc., the bacteria concentrate on the portion of the trees where the leaves come out, so the trees do not develop. In Chicago Park, one would not see any leaves on the first two-thirds (or more) of the tree, and sparse leaves will be seen on the top of the trees. He pointed out that the trees are loaded with fruit, but there will not be any leaf structure/food producing surfaces to feed the fruit so that they mature properly. The fruit ends up falling off the tree because the trees are so weak. The grape industry has also taken a hit.

CLOSED SESSION was declared at 10:55 a.m. pursuant to Government Code 54957.6 to provide direction to the District's designated bargaining representatives – Nelson, Crough, Owens, DuBose and Meith – regarding 2010 salary/benefit/working conditions.

CLOSED SESSION was declared at 10:55 a.m. to discuss existing litigation with District Counsel pursuant to Government Code Section 54956.9; the name of the case is Robbins vs. Nevada Irrigation District, County Superior Court Case No. 75530.

MEETING RECONVENED in regular session at 11:40 a.m.

MEETING ADJOURNED at 11:40 a.m. to reconvene in regular session on June 9, 2010, at 9:00 a.m. at the District's main office located at 1036 W. Main Street, Grass Valley, California.

May 26, 2010

Board Secretary

Attest a true record of actions
had and taken at the above and
foregoing meeting our presence
thereat and our consent thereto.

Director
Division I

Division II

Division III

Division IV

Division V
