

***MINUTES OF A REGULAR MEETING OF
BIG BEAR MUNICIPAL WATER DISTRICT
HELD ON THURSDAY, APRIL 21, 2011***

CALL TO ORDER

President Suhay called the Open Session to order at 1:00 PM. Those in attendance included Director Murphy, Director Fashempour, Director Eminger, Director Smith, District Counsel Wayne Lemieux, General Manager Scott Heule, Lake Manager Mike Stephenson, and Board Secretary Vicki Sheppard.

President Suhay asked that everyone take a moment to remember Travis Carroll who died last Thursday in a traffic accident.

REPORTS

General Manager, Scott Heule stated that all of us at the MWD are extremely saddened by news of the loss of Travis Carroll in a traffic collision last Thursday. He explained that Travis was more than an employee he was a long time friend and colleague of many here at the District and was appreciated for the job he performed. He reported that Travis was hired in 1996 as a Lake Patrol Trainee/Ramp attendant and served many years as a Lake Patrol Officer and was promoted to the year round position of Lake Operations Supervisor in 2007. Mr. Heule reported that much of his time has been devoted recently to gathering information and organizing opportunities for everyone to learn more about the DWP and its operations. He added that the next installment will occur during the meeting today. He stated that he asked the DWP senior management to attend and provide more details concerning budgets, grants, capital improvements and ground water resources adding that a wealth of information and experience is represented by these individuals. Mr. Heule introduced Interim General Manager Dani McGee, Water Resource Manager Bill La Haye, Water Superintendent Steve Wilson, Chairman Steve Foulkes, Commissioner Don Smith, and Commissioner Fred Miller. Mr. Heule reported that he and Mr. Stephenson are working closely with Tom Dodson and Associates to be sure all the "i's" are dotted and "t's" are crossed as Marina Point works toward securing their permits to open the marina at Cluster Pines and finish the dredging that was halted years ago by court order. He explained that Mike Stephenson and Tom Dodson & Associates staff will be meeting with the California Department of Fish and Game and the project developers next Friday to discuss potential additional environmental analysis and reporting requirements along with District regulations for shorezone alteration permits. Mr. Heule reported that at the Marina Task Force meeting yesterday, the owners gave high praise for how the District has been handling lake level management over the past months. He added that they recognize that the hassles associated with high lake levels now are temporary explaining that a full lake today will pay dividends years from now when the lake is fuller than it would have been if we were not being so careful managing it the way we have been. He explained that the maintenance/repair building at Pleasure Point is underwater, part of the cul-de-sac at the bottom of Pine Knot is flooded, illegal horse shoe pits and barbeques built on lake-bottom are underwater, and the northwest side of Stanfield is eroding because of the prevailing westerly winds and resulting waves. He added that we also have acres of additional lake surface for boating and fishing this summer. He reported

that one additional issue related to high lake levels is that the debris that has been high and dry around the shoreline for years started floating around the lake. He stated that Mr. Stephenson and his crew have collected tons of material already explaining that it will be a continuous effort throughout the summer.

Lake Manager, Mike Stephenson reported that the water release total to date is at 8,141 acre feet. He added that the release is currently at 100 CFS. He explained that Seven Oaks Dam is upset because our releases are filling them up and they are limited in what they can release at this time because of the Santa Ana Sucker Fish adding that they are trying to keep the water at 3,000 acre feet. Director Eminger asked how the water clarity of Seven Oaks Dam is at this time. Mr. Stephenson reported that it is not good explaining that there are lots of nutrients that cause algae problems. He reported that the District has been nominated to participate in a new herbicide trial that is milfoil specific. He reported that we might participate on a trial basis treating 5 to 50 acre parcels. He explained that we were nominated because our lake is cooler and deeper than some others. Director Murphy asked how many pounds of the new herbicide we might use and is it liquid or granular. Mr. Stephenson reported that we would use 14.8 pounds per acre and it is granular, not liquid. Director Fashempour asked if participation in the test program is free. Mr. Stephenson explained that the product, application, and the monitoring are 100% free to the District.

APPROVAL OF CONSENT CALENDAR

Upon a motion by Director Murphy, seconded by Director Eminger, the following consent items were unanimously approved:

- Minutes of a Regular Meeting of April 7, 2011
- Warrant List Dated April 15, 2011 for \$212,343.05
- Approval of a Concession Permit to Ruth Faley for Big Kahuna Hot Dog concession at the East Ramp

CONSIDER AUTHORIZING STAFF TO ENGAGE IN DISCUSSIONS WITH THE DEPARTMENT OF WATER AND POWER, CITY OF BIG BEAR LAKE (DWP) REGARDING THE POSSIBLE ACQUISITION OF THE DWP BY THE MWD

Mr. Heule began by making a PowerPoint presentation (see attached). He quoted a phrase from Tom Hanks "Cast Away" movie, "tomorrow the sun will rise, and you never know what the tide will bring". He went over some actions to date including some exploratory conversations with MWD and DWP, closed session wages and benefit discussions, the DWP system tour and discussions with senior staff, and the meeting on April 15th when the Acquisition AD HOC Committee met with representatives from the DWP and Local Agency Formation Commission staff in San Bernardino. He explained that according to LAFCO Executive Director Kathleen Rollings-McDonald the only action required of her agency as it relates to possible acquisition of the DWP by MWD is to clarify the Districts' Water Power to include retail water sales. He stated that in addition to Water, available District Functions include Parks and Recreation, Sewer and Fire Protection. He reported that she also thought that, although not required, it would be appropriate for the District to establish an Improvement District, which footprint would consist of the existing DWP water service area plus the North Shore from Fawnskin to Stanfield Cutoff. Mr. Heule added that during the discussion the DWP Rim Forest service area was discussed. He reported that DWP indicated that there have been ongoing discussions with Lake Arrowhead

CSD about their desire to acquire the system but that no formal action has been taken on the matter. He added that the timing of an MWD acquisition of the DWP was also discussed. Mr. Heule explained that the City charter requires an election to dispose of the DWP and the earliest that election could take place would be in November. He stated that based on that timetable the earliest an acquisition could be completed would probably be January 2012. He reported that staff will be exploring other options that might provide for an earlier completion of the acquisition process. Mr. Heule explained the benefits to the acquisition: eliminates a layer of Government, valley wide elected representation, MWD's water powers, no need for CSA 53C in Fawnskin, administrative cost savings, one GM and one Board instead of two, eliminated DWP property tax burden, and eliminates unusual governance of DWP. He went over the reasons that it is being addressed now. He explained that the Directors feel there are several conditions that would have to be met in order to finalize the acquisition and he went over those conditions: significant cost savings, creates efficiencies of scale, does no harm to Lake Management operations, does no harm to water supply operations, and positive or neutral affect on employees. He introduced Dani McGee who went over the administrative portion of the existing DWP organization chart (see attached). She explained that a new position will be added before July 1 that is an Executive Assistant with strength in HR. She added that some of the DWP staff has put in over 19 years of service. Mr. Heule then introduced Bill La Haye who went over the operations portion of the chart. He also went over the Capital Expansion and Rehabilitation projects. He explained the Water Use Efficiency Conservation chart on page 7 of the PowerPoint presentation. He reported that they have just added a new position as public information/conservation. He explained that this person will also upgrade their website and they will have a higher profile in the community. He added that they will also be adding a seasonal conservation person who will assist with homeowner landscaping conservation. President Suhay asked how they have added and kept personnel with less cash coming in. Mr. La Haye explained that they have been very efficient. He then introduced Steve Wilson who went over the field operations portion. Director Smith asked what other tasks they use seasonal employees for. Mr. Wilson explained that they use them for weed abatement, leaks, painting buildings, and so on. Ms. McGee went over the financial pages explaining that they had a rate increase but with less consumption it affects income. She covered grants, bonds and loans. Director Eminger asked how much the meter installation fee was. Ms. McGee explained that it depends on several factors such as location but it averages around \$1000. She stated that operating costs are under control explaining that they are down from last year. She added that there is a new water operations category this year that includes uniforms. Director Murphy asked about the debt service portion of a customer's bill. She explained that it is reflected in the bill but not shown as an individual item on the bill adding that customers may call and find out what that individual amount is if they wish. Ms. McGee distributed a financial handout covering debt service and debt source which she went over (see attached). Mr. La Haye went over "Rehabilitation Projects Fiscal Year 2011-12" (page 7 of the PowerPoint) explaining the various grants and loans adding that they experienced a big leap forward with their capital improvement plan. Director Smith asked about the restrictions on what grant money can be used for. Mr. La Haye explained that an Engineer's Report on what they plan to accomplish is completed when a project is planned and when it is approved it is pretty much what the USDA contract states (it can't be used for any other projects). Director Smith stated that it seems to be performance driven. Mr. La Haye stated "that is true" adding that they can't use the funds for other than the approved project. Mr. La Haye went over

pages 5 and 6 of the PowerPoint explaining the various grants and capital expansion projects for 2010-11 and 2011-12. Director Smith asked if there was a direct correlation between population and water use. Mr. La Haye stated that is hard to track adding that even if a customer doesn't use much water they still have to have their water connected. Ms. McGee stated that it is hard to track it house by house. President Suhay asked if water quality changed in high water (rainy) years. Mr. Wilson stated that is hard to say but could affect it adding that they keep a close eye on the mineral and contaminants in the water. Mr. LaHaye went over New Water Supply Development (page 8). Mr. Heule went over the various challenges to the acquisition consideration (page 8). Director Murphy stated that he believes the retirement plans could be kept separate. Mr. Heule stated that if an election is necessary it would prolong the process until at least the first of the year. District Counsel Wayne Lemieux explained that an election is required by City Charter but not by MWD. He explained the steps involved for condemnation/eminent domain acquisition of the DWP by the MWD adding that could speed up the process greatly. Director Murphy asked what an election could cost the City. Mr. Lemieux explained that an election would cost more because it would not be a shared election adding that it could cost twice as much. Director Smith asked how you condemn something that is working. Mr. Lemieux stated you can condemn anything except money and you would not want to do it unless it was a cooperative effort (if you can make a deal it would happen faster). Director Smith asked how many of the DWP employees are members of the union. Ms. McGee stated that everyone except supervisors and seasonal employees are members. Mr. Heule explained that based on the numerous meetings, tours of DWP facilities by the Board and conversations with DWP Senior Management, the Acquisition Ad Hoc Committee recommends that the Board authorize Staff to engage in discussions with the DWP regarding the possible acquisition of the DWP by the MWD.

Director Smith moved approval of authorizing staff to engage in further discussions with the Department of Water and Power, City of Big Bear Lake (DWP) regarding the possible acquisition of the DWP by the MWD. Director Murphy seconded the motion and it was unanimously approved.

PUBLIC FORUM

No comments were made

ANNOUNCEMENTS

Mr. Heule announced that next Wednesday he and President Suhay, Director Smith, and Director Eminger will be attending the Santa Ana River Conference in Riverside. He added that next Thursday and Friday he will be attending General Manager training. He reminded everyone about the Special Board Meeting being held at the City of Big Bear Lake scheduled for next Monday at 9:00 am adding that if anyone wishes more information to contact him.

DIRECTOR COMMENTS

Director Smith asked why Seven Oaks Dam can't channel the water through the Edison Plant. Mr. Stephenson explained that it is all the same channel and Edison can't get to their plant because the water is too high explaining that it is flooded. Director Eminger commented about the Trout Pond stating that we are going to have a workshop next month. Director Murphy stated that the LA Times had a front page article about the high water levels in Big Bear Lake.

ADJOURNMENT TO CLOSED SESSION

The meeting was adjourned to Closed Session at 2:30 P.M to:

Conference with Legal Counsel Government Code Section 54956.8 concerning
acquisition of Department of Water and Power, City of Big Bear Lake.

RECONVENE TO OPEN SESSION

The meeting was reconvened to Open Session at 3:06 P.M.

No reportable action.

ADJOURNMENT

There being no further business, the meeting was adjourned at 3:07 P.M.

NEXT MEETING

Open Session at 1:00 P.M.

Thursday, May 5, 2011

Big Bear Municipal Water District

40524 Lakeview Drive, Big Bear Lake, CA



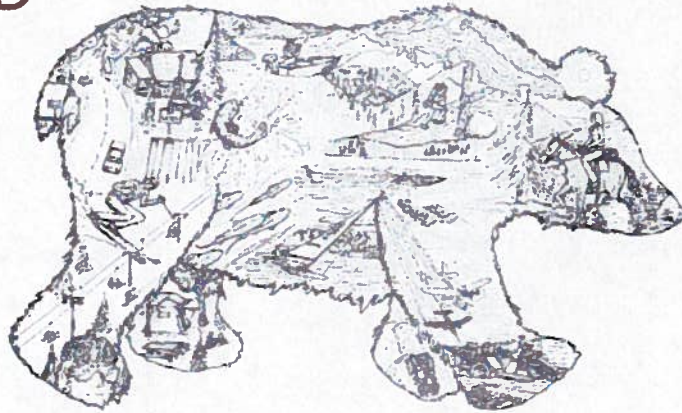
Vicki Sheppard

Secretary to the Board

Big Bear Municipal Water District

(SEAL)

Consider Acquisition of DWP by MWD



Big Bear Municipal Water District
Board Meeting, April 21, 2011

Tom Hanks, "Cast Away."

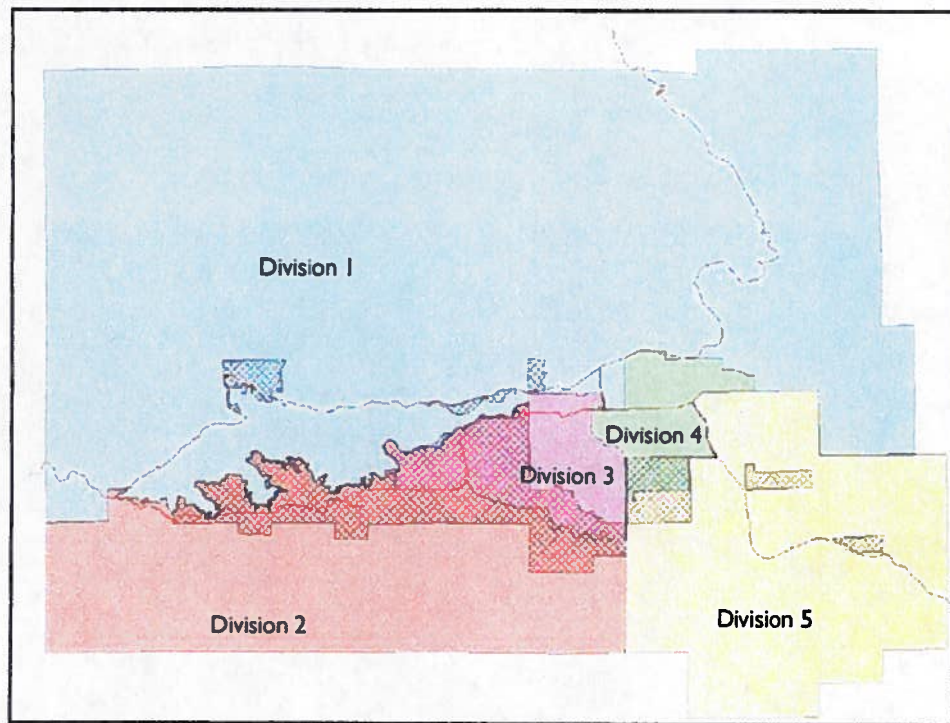
*"... tomorrow the sun will rise,
and you never know what the
tide will bring."*

Actions Taken to Date

- March
 - Exploratory conversations, MWD and DWP GM's
 - 28th Closed session wages and benefits discussion, MWD unrepresented employees/DWP represented employees
- April
 - 13th & 14th DWP system tour & discuss with MWD & DWP Senior Staff
 - 15th Acquisition Committee at LAFCO

Why?

- Eliminates layer of Government
- Valley wide elected representation
- MWD's water powers
- No need for CSA 53C in Fawnskin
- Administrative cost savings (\$200,000?)
- One GM and One Board instead of two
- Eliminates DWP property tax burden
- Eliminates unusual governance of DWP



Why Now?

- DWP GM Joel Dickson leaving
- DWP Board willing to seriously discuss
- MWD Board willing to seriously discuss
- City Council apparently willing to seriously discuss
- DWP admin. transition from City
- MWD GM experience at DWP

Conditions to Satisfy

- Significant cost savings
- Creates efficiencies of scale
- Does no harm to Lake Management Operations
- Does no harm to Water Supply operations
- Positive or neutral on employees

DWVP Background

- Organization Chart
- Budget: Revenue and Inflows
- Budget: Expenditures
- Debt
- Cash Balances

Funding Applications for Infrastructure Replacement

- Grants Awarded:
 - 2008 - \$ 956,000 State Tribal Assistance Grant by EPA
 - 2009 - \$ 485,000 State Tribal Assistance Grant by EPA
 - 2010 - \$ 727,000 State Tribal Assistance Grant by EPA
 - 2010 - \$1,603,200 USDA – Rural Development Grant
- Bonds Issued:
 - 2010 - \$3,628,000 USDA – Rural Development Bond
 - 40 Years, 2.375%
- Funding 2011 applications pending:
 - Spring 2011 - \$6,000,000 USDA Application #1
 - Proposed \$5 Million Low-Interest Loan, 40 Years, 3.375%
 - Proposed \$1 Million Grant

Capital Expansion Projects 2010/11

Project	FY 2010/11 Budgeted Costs
USDA Application #1 – Magnolia Well, Cherokee Well, Erwin Lake Mains (partial)	\$1,584,908
East Valley & Lake William Wells	554,000
Infrastructure & Urban Water Mgmt. Plans	90,000
Direct Labor	114,511
Meters, Meter Boxes & Telemetry	44,800
Road Patch (project-related)	15,600
Knickerbocker Ridge	3,222
Overhead	129,444
Total Capital Projects	\$ 2,536,485

Capital Expansion Projects 2011/12

Project	FY 2011/12 Budgeted Costs
Equip Magnolia Well	\$ 684,205
East Valley Test Holes	508,292
Other Miscellaneous	91,300
Total Capital Projects	\$ 1,283,797

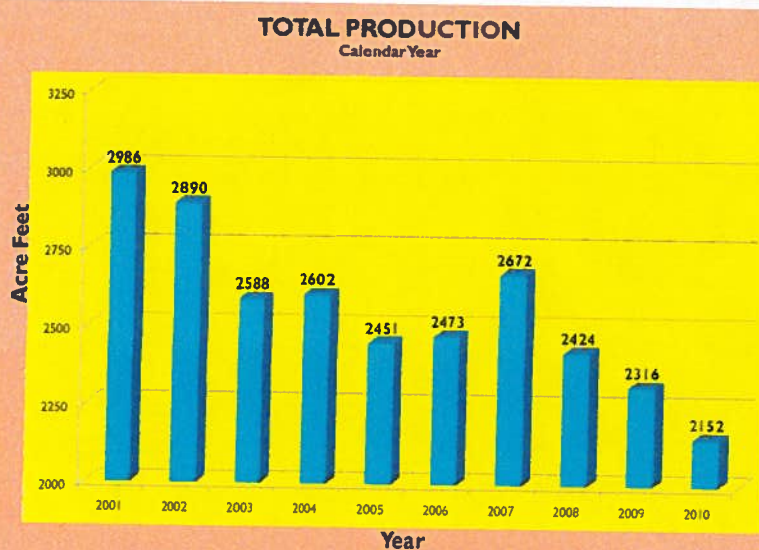
Rehabilitation Projects Fiscal Year 2010/11

Project	FY 2010/11 Budgeted Costs
USDA Application #1 – Lakeplant #6 Well, Seminole Well, Mainlines	\$ 3,557,942
Reservoirs– Recoat, Inspect & Clean	175,000
Well Rehab- Bow Cyn, Pennsylvania, Replace Well Meters, Boosters, Chlorine Stations	148,675
Direct Labor	136,829
Expand Radio-Read Meter Program	95,575
Replace Meters, Meter Boxes, ECRs	77,600
Add Telemetry – New Wells	60,000
Road Patch – Project-related	36,400
Division #2 Blending Line	25,000
Hydrant Replacement	11,000
Overhead	235,888
Total Rehabilitation Projects	\$4,559,909

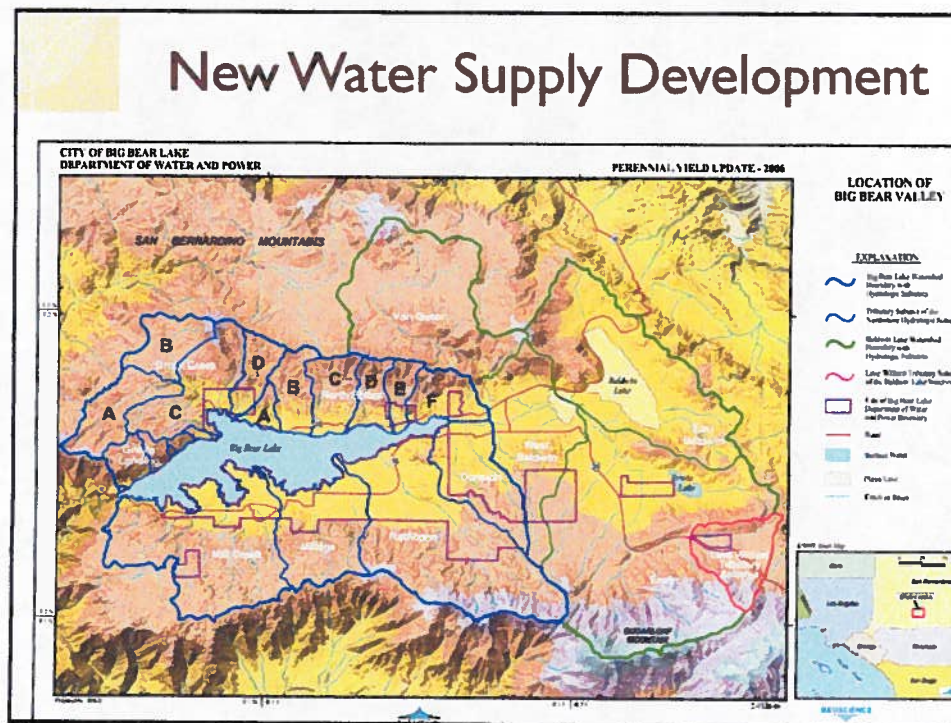
Rehabilitation Projects Fiscal Year 2011/12

Project	FY 2011/12 Budgeted Costs
USDA Contract #4 Main Replacement	\$2,646,612
USDA Contract #5 Main Replacement	2,589,223
USDA Contract #6 Well Equipping	1,971,287
USDA Contract #1 Pipeline Additional Scope	1,796,162
Reservoirs- Recoat, Inspect & Clean	178,472
Division #2 Blending line	178,472
Grout Creek Main Replacement	115,482
General Professional Services	106,193
Infrastructure Replacement Plan	104,984
Expand Radio-Read Meter Program	83,987
Replace Meters, Meter Boxes, ECRs	81,572
Misc. Well/Booster Rehabilitation/Telemetry	43,091
Road Patch -- Project-related	26,246
CSD Blending Line - Engineering	15,748
Other Miscellaneous	118,403
Total Rehabilitation Projects	\$10,055,934

Water Use Efficiency/Conservation



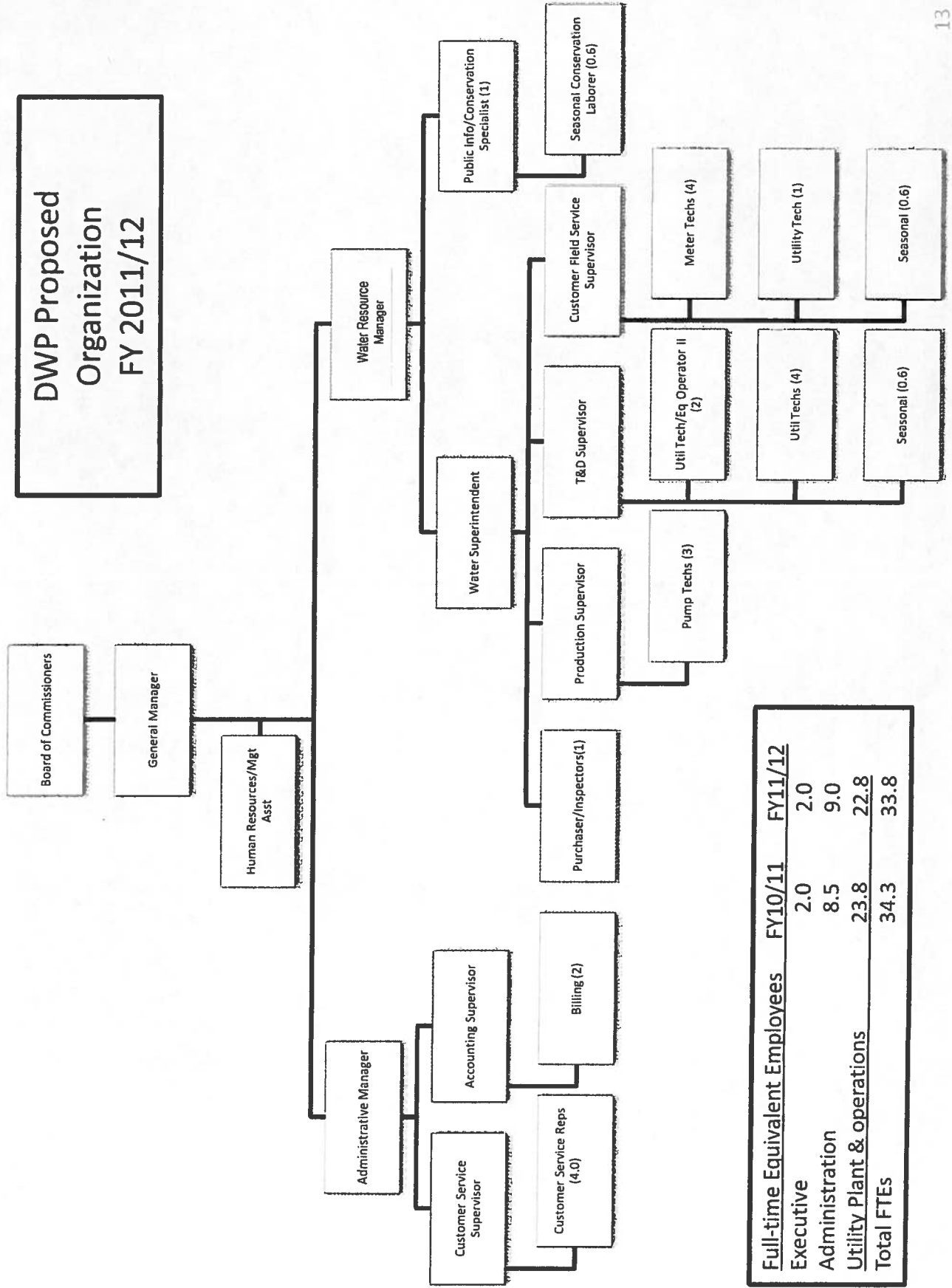
New Water Supply Development



Challenges

- Two employee retirement systems
 - MWD CalPERS
 - DWP SBCERA
- MWD Social Security
- DWP no Social Security
- Non-union and union shops
- Some differences in employee benefits
- With election long time line to complete

DWP Proposed Organization FY 2011/12



Full-time Equivalent Employees	FY10/11	FY11/12
Executive	2.0	2.0
Administration	8.5	9.0
Utility Plant & operations	23.8	22.8
Total FTEs	34.3	33.8

BIG BEAR LAKE DEPARTMENT OF WATER AND POWER

2011-12 SCHEDULE OF REVENUES/INFLOWS BY FUND & CATEGORY

Projected FY 2010-11 Proposed FY 2011-12 Budget

REVENUE FUND

Capacity Charges	\$ 573,008	\$ 152,119
Water Meter Installation Fee	20,000	18,224
Use of Money & Property	12,000	10,000
Service Charges & Usage Fees	9,284,977	10,037,495
Miscellaneous Fees and Charges	374,468	350,254
Total Revenue Fund	\$ 10,244,453	\$ 10,568,092

DEBT SERVICE FUND

Use of Money & Property	\$ 1,500	\$ 1,250
Total Debt Service Fund	\$ 1,500	\$ 1,250

SYSTEM REHABILITATION

Subventions & Grants	1,736,459	10,077,634
Total System Rehabilitation	\$ 1,736,459	\$ 10,077,634

CAPITAL FACILITIES

Subventions & Grants	1,347,341	889,542
Total Capital Facilities	\$ 1,347,341	\$ 889,542

Grand Total	\$ 13,329,753	\$ 21,536,518
Transfers (to) from Undesignated Reserves Reserves	1,529,271	(665,412)
Transfers to Vehicle/Equipment Reserve		(65,000)
Adjusted Total	\$ 14,859,024	\$ 20,806,106

BIG BEAR LAKE DEPARTMENT OF WATER AND POWER
2011-12 SCHEDULE OF EXPENDITURES BY FUND & CATEGORY

Operations & Maintenance		FY 2010-11 Projected		Proposed 2011-12 Budget	
Source of Supply & Pump		\$	1,226,998	\$	1,227,718
Conservation			117,567		135,553
Transmission & Distribution			786,800		802,798
Customer Account Division			920,764		831,093
Customer Field Service			522,749		546,105
Water Operations			-		455,751
General & Administrative Division			1,890,717		1,147,457
Public Information			-		82,956
Property Taxes			116,220		120,000
Total Operations & Maintenance Fund		\$	5,581,815	\$	5,349,432
Debt Service					
Debt Service		\$	3,891,395	\$	4,116,943
Total Debt Service Fund		\$	3,891,395	\$	4,116,943
System Rehabilitation					
Source of Supply & Pump		\$	1,676,367	\$	2,493,055
Transmission & Distribution			1,811,901		7,562,879
Total System Rehabilitation Fund		\$	3,488,268	\$	10,055,934
Capital Facilities					
Source of Supply & Pump		\$	1,462,857	\$	1,271,229
Transmission & Distribution			434,689		12,568
Total Capital Facilities Fund		\$	1,897,546	\$	1,283,797
Grand Total		\$	14,859,024	\$	20,806,106

Debt

Debt Source	Principal Balance 6/30/11 (or upon full funding)
1996 Revenue Bonds (Matures 2022)	\$ 26,855,000
DWR Low-interest Loan (Matures 2015)	1,361,355
USDA 2010 Bond (upon full funding) (Matures 2049)	3,628,000
USDA 2011 Bond (upon full funding) (Matures 2050)	5,000,000
Totals	<u>\$ 36,844,355</u>

Debt Service	Current
1996 Revenue Bonds	\$ 3,408,600
DWR Low-interest Loan	325,324
USDA 2010 Bond	141,500
USDA 2011 Bond	229,617
Annual Debt Service	<u>\$ 4,105,041</u>

Cash Balances

Projected General Fund Cash Balance 6/30/11	\$2,299,425
Projected Debt Service Cash Balance 6/30/11	4,667,700
Projected Total Cash 6/30/11	\$6,967,125

Less:

2-Months Operations & Maintenance	\$ 935,000
Capital Projects and Asset Replacement Reserves	1,800,000
Vehicle and Equipment Reserves	317,400
Short-lived Asset Reserve (USDA-required)	26,400
Debt Service Reserves	4,108,467
Total Restricted and Assigned Cash	\$7,187,267
Projected FY 2011/12 Surplus (Deficit)	712,261
Projected Cash Available for future projects 6/30/12	\$ 492,119

Debt Service	
96 Bonds	\$ 3,409,000
\$5M Loan (parity)	325,324
USDA 2010 Bond	144,526
USDA 2011 Bond (projected)	229,617
Total Debt Annual Service	\$ 4,108,467

120% test	Fiscal Year 2011/12 Budget
Gross Revenue	10,569,342
Less:	
1) Necessary & Reasonable Maintenance & Operations Costs (Includes O&M costs; excludes depreciation, interest & amortization):	
Operations & Maintenance	(5,349,432)
	(5,349,432)
2) Excess Investment Earnings (excess of actual earnings over bond yield) Yield = 5-6%	-
Net Revenues	<u>\$ 5,219,911</u>
Debt Service Requirement	120% <u>\$ 4,930,161</u>
Net Revenues Excess/(Shortfall) 120% Test	<u>\$ 289,750</u>
Coverage Ratio	127%

100% Test	Using 10/11 Budget
Gross Revenue less connection fees	\$ 10,398,999
Less:	
1) Necessary & Reasonable Maintenance & Operations Costs (Includes O&M costs; excludes depreciation, interest & amortization):	
Operations & Maintenance	(5,349,432)
	(5,349,432)
2) Excess Investment Earnings (excess of actual earnings over bond yield)	-
Net Revenues (without connection fees)	<u>\$ 5,049,568</u>
100% Debt Service Requirement	<u>\$ 4,108,467</u>
Net Revenues Excess/(Shortfall) 100% Test	<u>\$ 941,101</u>
Coverage Ratio	123%

Conclusion: Net revenues (as defined) are adequate to meet 1996 Indenture Agreement requirements

Debt Source	Principal Balance 6/30/11	Interest to Maturity	Totals	Rate	Maturity
1996 Revenue Bonds	\$ 26,855,000	\$ 10,595,400	\$ 37,450,400	6.0%	2022
DWR Low-interest Loan	1,361,355	102,532	1,463,887	2.99%	2015
USDA 2010 Bond	3,628,000	2,031,999	5,659,999	2.375%	2049
USDA 2011 Bond	5,000,000	4,184,689	9,184,689	3.375%	2050
Totals	\$ 36,844,355	\$ 16,914,621	\$ 53,758,976		

Debt Service	Annual
1996 Revenue Bonds	\$ 3,408,600
DWR Low-interest Loan	325,324
USDA 2010 Bond	141,500
USDA 2011 Bond	229,617
Annual Debt Service	\$ 4,105,041