

**Special Meeting
November 16, 2006
5:30 p.m.**

The Board of Directors of the San Benito County Water District convened in special session at 5:30 p.m. at 30 Mansfield Road, Hollister, CA. Board Members present were: President John Tobias, Vice-President Bob Swanson, Directors Ken Perry, Sonny Flores and Frank Bettencourt. Also present were: District Manager/Engineer John S. Gregg, Deputy District Engineer Jeff Cattaneo, District Counsel David E. Pipal, Special Counsel Janet Goldsmith, Administration and Finance Manager Shelley Giancola, and Office Specialist II Barbara L. Mauro.

CALL TO ORDER

a. Pledge of Allegiance to the Flag.

President Tobias led the Pledge of Allegiance to the Flag.

AGENDA ITEMS:

1. Continue Review of the USBR Contracts and Santa Clara Valley Water District Agreement.

Mr. Gregg stated that Ms. Goldsmith will begin with a review of the contracts. Ms. Goldsmith began with a table showing the differences between the District's existing contract and the new one. In regards to renewal beyond the contract, there is a one, 25 year term, either way. Ms. Goldsmith also reminded the Board that the new system will have a tiered pricing rate for usage. President Tobias asked what would happen to the District's allocation in a low water year and Ms. Goldsmith stated it would be based on historical use. Director Flores asked if the price is also figured on historical use and Ms. Goldsmith stated no, it is based on the guidelines set up by the Bureau. Ms. Goldsmith continued that under the step repayment, the first ten years the District's repayment amount would roughly be what it is paying now, with increases to come in the second and third decades of the contract. Ms. Goldsmith reported that the new contract states M & I water will be more reliable than Ag water; however, it is already handled in this manner. President Tobias asked about protection for Ag water and Mr. Gregg stated the new program is based on historical use; it is not a permanent allocation. Mr. Pipal asked how the service area is defined and Ms. Goldsmith stated it is everything inside the current District boundary and inside of Santa Clara Valley Water District's current boundary. Also, Mr. Gregg reported that under the current contract, the service area is Zone 6. However, under the new contract, the service area could be expanded, if needed. Director Bettencourt asked for clarification of the terms of the new contract and when payment is due and Ms. Goldsmith stated the contract is for 25 years, with one renewal of 25 years and repayment in due by 2036.

Ms. Goldsmith continued with a review of the Bilateral Agreement between the District and Santa Clara. This contract will bring the present value of the repayment, in the bilateral agreement, closer to the value of the existing contract. Santa Clara has agreed to pay most of the interest during construction, which will amount to approximately 6 million dollars to the San Benito County Water District. Ms. Goldsmith also reported that the Bureau wanted to increase the interest rate from 3.5% to 5.3%, without the new contract, this would mean an increase of approximately 4 million dollars to the District. The new agreement fixes the rate at 3.5% for the term of repayment for facilities in place. Ms. Goldsmith stated that this agreement preserves the entitlement of 22% at Reach I. Santa Clara has also agreed to allow use capacity at 115 cfs, or higher, when extra capacity is needed, which Ms. Goldsmith stated is important until San Justo is repaired. Also, Ms. Goldsmith reported this agreement addresses maintenance issues such as asset evaluation, prioritizing of items, financial planning and budget reviews. There will be joint meetings with the District and Santa Clara's Ad hoc committees to discuss condition levels needing to be maintained at the facilities. Ms. Goldsmith stated the review and assessment would take place every three years. President Tobias asked how each district would manage the restricted funds and Mr. Gregg stated that each district will maintain their own restricted funds for Reach 1. Vice President Swanson asked if Board action is needed to disburse monies from the restricted funds and Mr. Gregg stated his expectation would be the Board would need to set-up policy for the future to ensure clarity. Vice President Swanson asked if we currently have it set-up for the Board to take action when funds are disbursed and Mr. Gregg reported that at this time we do not, which Vice President Swanson stated he felt the Board should. Mr. Gregg continued that we currently have three Restricted Fund Accounts. One is required by the Bureau and the District needs approval from the Bureau to withdraw from this account. The second account is for Reach 1 and is held by Santa Clara and again, Bureau approval is needed for withdrawals. The third is for Zone 1 or General District and is used for studies within the District. Funds from this account are only withdrawn with Board authorization. Director Flores asked if the District would be able to get back the funds Santa Clara is holding in Reach 1 and Mr. Gregg stated no. Ms. Goldsmith stated closer coordination with staff was an important component of this agreement. There will be a minimum increment of five years that the two districts' Ad hoc committees will meet, however; Ms. Goldsmith feels the meetings will be more frequent in the early years. Mr. Gregg reported the Restricted Rate Management Reserve will be established by both parties for specific emergency purposes and Ms. Goldsmith stated each Board will determine what level of funding is needed. Due to the issues at San Justo Reservoir, Santa Clara is willing to allow uncompensated use of more than 22% of Reach 1 capacity, and in addition, Santa Clara will provide up to 200 hours of technical assistance, at no cost,

per year for 5 years. In conclusion, Ms. Goldsmith stated with one issue to resolve, the agreement's negotiations are complete.

Mr. Gregg restated information received by the Board at the previous meeting. We have concluded negotiations on the Second Amendatory Contract, agreeing to amend our existing contract and complying with the CVPIA. Mr. Gregg stated there are clearer options regarding local ownership and it formalizes the business basis with respect to maintenance issues with Santa Clara. Vice President Swanson asked if this contract restricts the District from changing our service area and Mr. Gregg stated it is a local issue between the District and the Bureau, not with Santa Clara. Regarding the joint service area and use, the agreements create the opportunity for exchanges and transfers between the two districts on a routine basis and to report these changes to the Bureau. Mr. Gregg reported that given the situation with San Justo, coming to agreement with Santa Clara regarding the availability of a minimum amount is important. As the District is in the process of contracting with our customers, the Board may need to decide whether to declare a water supply emergency and have provisions for limiting the availability of water. Mr. Gregg referenced the situation the District encountered during the brief heat wave this past summer. Regarding Contract Risks, non-renewal would mean the increase of the interest rate to 5.3%, adversely affect the District's relationship with the USBR and Santa Clara and would not fix the repayment amount, which would increase the costs for the District. Mr. Gregg stated another issue of not proceeding would be reallocation of capital which would again increase costs and limit access to water markets which could create a problem given the limited capacity at San Justo Reservoir. Mr. Gregg stated the District can elect to continue with the current contract or proceed with the renewal contract. Mr. Gregg stated these three contracts appear to meet the intent of the District to proceed with a renewal contract with minimal financial impact to the District. The contracts also consider local ownership, which has been a long term goal. Mr. Gregg reviewed the Financial Impact for the District for Renewal and Non-Renewal. Ms. Goldsmith discussed the fact that the last 10 years of the new contract is a substantial amount, but all capital construction costs would be paid and the District could then seek title. Under the current contract, the money simply goes to the Treasury. Mr. Gregg concluded with the important considerations such as: continuing business relationship with Santa Clara, the on going restricted use of San Justo, future ownership of Reach 1 and the additional capacity at Reach 1.

Mr. Gregg stated the next step will be to bring this agreement and accompanying documents from CEQA to the Board, either by the November Regular Board Meeting or a Special Meeting in December. Ms. Goldsmith stated the terms of the agreement do not begin until both Districts have signed the CVP Contracts. President Tobias asked if there is an advantage to waiting until 2007 and Ms. Goldsmith stated no. Director Bettencourt asked if a

change in Sacramento will affect these contracts and Ms. Goldsmith stated there seems to be no obvious change of direction. Director Bettencourt thanked Ms. Goldsmith for her efforts. Mr. Gregg stated there is significant detail in all of the contracts, so he suggested if the Board had any questions, they should contact either Mr. Gregg or Ms. Goldsmith for clarification.

ADJOURNMENT

There being no further business, the meeting was adjourned at 6:43 p.m.

Minutes were approved at the November 29, 2006, Regular Board meeting and signed by the presiding board member.

/s/John Tobias
John Tobias, President

/s/Barbara L. Mauro
Barbara L. Mauro, Board Secretary