

**MIDWAY CITY SANITARY DISTRICT
MINUTES OF ADJOURNED REGULAR MEETING
BOARD OF DIRECTORS
DISTRICT OFFICE
14451 CEDARWOOD AVENUE
WESTMINSTER, CA**

February 23, 2010

9:30 A.M.

CALL TO ORDER

President Neugebauer called the adjourned regular meeting of the Governing Board of the Midway City Sanitary District to order at 14451 Cedarwood Avenue, Westminster, on Tuesday, February 23, 2010 at 9:30 a.m.

BOARD MEMBERS PRESENT:

Tyler Diep
Grace P. Epperson
Joy L. Neugebauer
Al P. Krippner
Margie L. Rice

OTHERS AT MEETING:

Greg Nordbak, General Manager
Ken Robbins, Assistant General Manager
Robert Housley, Finance Director
Julia Sales, Administrative Assistant

PLEDGE AND INVOCATION

Director Diep led the flag salute. Director Epperson gave the Invocation.

PUBLIC COMMENTS

No Public Comment.

NEW BUSINESS

A. Fiscal Year 2009-10 Mid-Year Budget Review

GM Nordbak did overview of revised version of the Mid-Year Budget.

GM Nordbak pointed out that the Proposed Changed numbers are in color: the blue is money that's to the good (positive): the red is running a deficit where Staff budgeted. The bottom of the page is now showing the total of \$32,284, it was \$7,845. Also there are numbers to the right to make it easier to follow the line item across

GM Nordbak summarized:

Page 4, line 1, this is in good shape, but MCSD is projecting \$170,000 deficit next year due to taxes.

Lines 8 & 9 are the two large red numbers; this is caused by the low interest rates on the money that MCSD has invested. This continues drop so MCSD is off \$220,000 in revenue that Staff had budgeted for.

Lines 12 & 13 are state property tax and state utility numbers.

Page 2, items 21, 22, 23 all red numbers were created because of the new MOU contract cost increase.

Line 22, \$23,567 deficit should not repeat itself because it was a onetime pay out of excess sick and vacation time to employees.

Line 41 shows that MCSD hasn't been spent as of this time, but will be spending on the consultant for GASB 45, which is required this coming year.

Lines 43 & 44 is another deficit of \$38,000, this is legal fees driven by Board requests and Personnel issues, and with two personnel issues still pending this number could rise.

Line 46 is a \$40,000 transfer out that will reflect on page 4, line 68 Staff is taking Engineering out of the expense item and putting to a project specific.

Line 49, Hazardous Waste items, these cost are up and reflect MCSD costs on the yard for getting rid of oils and fluids that are required by law.

Page 3, line 52 Tonnage expense, the District is good here, but next year will be a \$400,000 deficit, due to rising tipping fees at the Orange County Landfill.

Director Krippner clarified: when will the tonnage price go up.

GM Nordbak explained between Tonnage and Taxes rates going up, MCSD will be hit with approximately half a million dollar increase.

Line 58, Temporary Personnel, the jump above budget is really offset on the Labor side, where three employees are no longer on payroll.

Line 73 reflects a temporary savings, because only two of the three trucks being converted have been done due to the time our contractor is taking, the third truck will be carried to the 2010/11 FY budget.

President Neugebauer asked about line 21, Salaries and Wages, is this a reflection with or without Jacob Watson and Nancy Gilbert?

GM Nordbak explained that the Salaries and Wages amount does give a reflection without both employees. GM Nordbak introduced a slide show from Finance Director Housley.

Director Krippner asked about variations in the next four months.

GM Nordbak stated that if Board approved no variations this will get MCSD through the rest of the year.

President Neugebauer asked if there are any variations, then it will stay within today's budget.

GM Nordbak stated that is correct and that if there is any variation at all, it might be through legal fees only.

President Neugebauer said she sees a great variation under Revenues the very first line, where MCSD is still budgeting \$6,634,000, having added since the one that the Board received Friday reflects \$250,000, she thinks this will be over a half a million dollars and thinks MCSD budgeted this at a very low percentage.

GM Nordbak stated the reported amount is the actual number.

President Neugebauer stated, but this is what the District received from the property assessor. She thinks the 250,000 Proposed Change will double and overall MCSD has a healthy budget and MCSD will know by April 2010, when the tax bill comes.

GM Nordbak turned this over to Finance Director Housley.

Finance Director Housley explained that the \$250,000 is a direct reflection of the change that was done to the commercial side for the sewer rates, when MCSD went to the Tiered Program, it was not part of the original budget, so that number that is projected is the number that MCSD sent to the assessor to actually charge on the tax roll.

President Neugebauer explained that MCSD is going to be another \$250,000 above this.

Director Rice asked where the extra \$250,000 that she thinks will be above.

President Neugebauer explained, because when MCSD adopted the budget, MCSD used 1% increase for the year, where other agencies used 2 or 3%. So she is getting around to requesting a memo what is actually received for line 1.

GM Nordbak clarified that the 1% is for line 4, not line 1.

President Neugebauer stated that she meant to say line 4, not line 1.

Director Rice asked, is there another \$250,000 that the Board should be looking at?

President Neugebauer interjected that she doesn't know, but it will make MCSD even healthier than it is.

President Neugebauer requested that when the Board receives the Budget Review that it follows the same format as the Annual Budget Document.

Director Rice asked why line 3 is a deficit.

Finance Director Housley explained that line 2 & 3 are directly related, when MCSD budgeted for the beginning of the year, thinking this would be the sewer connection fees & plan checks that would be lower, and the OCSD fees higher, the OCSD fees is the 5% that MCSD gets to keep from issuing permits, the sewer connection fees on line 2 that the District charges for inspections and plan checks, MCSD should have budgeted the opposite, that is why the Budget reflects a \$20,000 increase on line 2 and deficit on line 3.

GM Nordbak stated MCSD is clearing the Budget by just flipping line 2 & 3 and they cancel each other out.

President Neugebauer reminded the Board this is just an estimate.

GM Nordbak stated this \$250,000 is a direct connection from the raise in commercial sewer lateral fees, and didn't have that in the Budget at the time, because MCSD hadn't had the 218 hearing before budgets.

President Neugebauer feels that on page 3, line 51 & 52, Tonnage fees, MCSD anticipates this going up hundreds of thousands, but this makes it more important MCSD public outreach, because as the cost of the Tonnage goes up, MCSD can reduce the tonnage and this will absorb some of the costs, and she reiterated to please have the numbers and format same as the Annual Budget Document.

GM Nordbak asked if the Board is ready for the slide show.

President Neugebauer asked the Board for any other comments

No response.

GM Nordbak reminded the Board that MCSD will be taking a \$600,000 hit this next year.

GM Nordbak explained the slide show:

6-year comparison of Revenues, Expenses, and Capital outlay: overall looks good.

6-year comparison of Revenues vs. Expenses & Capital outlay combined: Revenues nine and half in 2009, and paid out almost 20 million: in 2010 MCSD is anticipating nine point three in revenue with payout of almost 12 million dollars.

The Fund Balance includes everything and is starting to decline, because of MCSD capital projects, when MCSD had the 218 hearing and raising the rates, the first year was fine, the 2nd year there was a 236% income profit that was when the Board decided not to raise the rates anymore, so the 3rd year was a 7% income.

President Neugebauer clarified the 7% was an income increase.

GM Nordbak resumed:

The 4th year there was a loss of 3% and 2009 year was almost even with a 1% and in the year 2010 MCSD will lose 12%, which goes right back to the fact that the 218 notice approval was okay to build the 10 million dollars, but now MCSD is cutting into the reserves and will continue unless there is a way to increase revenues. All of this does not include the hit of \$700,000. A reminder that within the next two years MCSD will be required to redo the Sewer System Master Plan.

Director Rice asked how many years had MCSD gone on the 218?

GM Nordbak explained this is the last year, and started in the year 2005.

Director Rice clarified that MCSD doesn't have to do a 218 notice this year, but then will have to do it next year if MCSD needs to raise the fees.

GM Nordbak agreed this is correct.

President Neugebauer asked Staff what is the cost to do a 218.

GM Nordbak stated that he doesn't know the cost, but is needed regardless of the cost; otherwise MCSD will be hurting without that revenue. Over the last three years without a 3% increase created a loss over 120 million dollars of income over a long period of time. This is because no rate increase now would only generate about a 20 million dollar increase of revenue over time, which puts the District into a deficit. He confirmed that he is not advocating an increase, only giving information for the Board to make an informed decision.

President Neugebauer needs it clarified, where is the COP?

GM Nordbak stated the COP is reflected in the Budget and all the money the District has is right there in this Budget. The COP debt would take out almost 10 million dollars from the fund balance of 19 million.

President Neugebauer wants concrete dollar amount received in April in the second increment of taxes, to help the Board make a better decision.

GM Nordbak stated that Staff is confident that it will not be more than the quarter of a million dollars.

President Neugebauer is hopeful that Staff will be incorrect in this instance.

Director Rice interjected that if MCSD finds that the funds are short, then MCSD better to something this year, it is election year, but MCSD has the responsibility to do what was voted, to pay the 10 million dollar MCSD borrowed. And MCSD has not done what should have been done to keep this debt paid.

GM Nordbak confirmed that without the yearly increase the problem compounds and it gets exceedingly worse for the District by not taking those increases. Staff is not saying that a 12% increase should be done, but a 5 or 6% with an explanation is to look at the economy. The Board needs to know it will strap the District when there is insufficient reserves.

President Neugebauer feels the window to still do that increase is a logical amount. But again, the Board is the one to make the informed decision.

GM Nordbak reminded the Board that the connection fees will not change (they were counted in this budget); only the commercial sewer fees will change (new fee after budget was prepared).

Director Rice reiterated that the District will be in bad shape, because you cannot go four years and not do what is supposed to be done and expect things to balance out right.

GM Nordbak agreed there will be challenges.

Director Rice reminded the Board that when the money was borrowed, there was a warning this would happen if the annual increased were not approved.

GM Nordbak turned the meeting over to Finance Director Housley and the Board will see, it is not the District's fault that MCSD is in this shape.

Director Krippner asked what date was it that the public complained about the increase.

GM Nordbak said the huge increase, 236%, was 2006.

Director Rice said there was no rate increase for 18 years and people were really upset.

President Neugebauer interjected that the information on page 4, 2005A went from 5 million to nearly 20million. That's when she lost a lot of confidence in that projection, initially the goal was to increase revenues to only 10million.

GM Nordbak pointed out the COP funds are \$11,455,000 of those dollars.

President Neugebauer agreed, yes, but that was 2007, and the District will have to take a closer look at the numbers in April, when the other numbers are received.

Finance Director Housley explained: this year there is mild growth, next year back to normal (2 to 3%) is a UCLA Anderson Forecast that is done every quarter. And in most recessions there is a big bounce in jobs when coming out of the recession, this time it is not true, it is more of a stimulus driven recovery.

GM Nordbak summarized that there just isn't going to be many jobs to take us out of the recession.

Director Rice pointed out that too many businesses are leaving and closing.

Finance Director Housley went on:

Page 7, gives home prices before and now, California was one of the States that got hit harder because home prices go up higher.

Page 8, the EDD website gave the medium home prices and at the height of the recession, December 2008 the home price was down to \$393,750 and in December 2009 the home price is up to \$431,000: this number could be misleading because there is a lot of home buying right now because of the tax credits, and people trying to get into homes, and what's also not spoken a lot, is banks are not foreclosing like they used to, they are drawing it out and waiting from 30-60 day foreclosure process and now is a 6 to 12 months process.

GM Nordbak pointed out: this is the number that is reflected on page 1, line 4, which is the 1%.

Finance Director Housley resumed:

Page 9, Assessed Valuations is the big topic at the conference that is being talked about right now. Assessed Valuations will be hitting Cities and Districts in the next few years. The graph shows where the home market values are normally in the 2% range.

Page 10, for the first time, because of deflation, since 1978 there will be a statewide decrease in property taxes revenues. The State of California CPI was a negative 0.237 last year, so this is the number that the County Assessors used to reassess properties within all the areas. Also on the EDD website it said that it is about \$2.60 per every \$100 thousand dollars assessed per value. See the actual table that is direct from the Orange County Assessor's office reflecting MCSD assessed property values within the District's boundaries, from 2008/2009 year to the current year 2009/2010, Orange County has done some reassessments, which has already affected MCSD's property taxes a bit.

Director Krippner said he preferred to have the dates reversed reflecting first column 2005/2006 and the last column was 2009/2010.

Finance Director Housley resumed:

For the 2010 year, the assessors continue to review single family homes, condos and townhouses, those property values may go down further.

Page 11, shows that for 2009, all of Orange County, the blue area is the traditional Prop 13 homes from the initial home owners that are still under the original 1978 2% per year, no more. The green area shows the properties within the last seven years.

GM Nordbak confirmed that in the last seven years, the buyers bought high.

Finance Director Housley continued:

In 2009 there was still a plus 0.7 increase in that 2% base, but in the last 7 years it was a negative 3%, so the assessed valuation was in that 2.3% less. This will continue for the year 2010.

President Neugebauer asked "Would you put that in different words for me?" "When houses sold so high, many of my neighbors who at least 10 out of the 40 houses on my street that had Prop 13, sold. When they were sold, they lost that Prop 13. Where does it reflect that on this report?"

GM Nordbak and Finance Director Housley confirmed for President Neugebauer to view the green area.

President Neugebauer verified then that there is a minus, but that it should be a gain for Agencies and Cities.

GM Nordbak agreed, it was a gain when it peaked, but now the number is declining backwards in the last three years.

Director Diep said "but it is still higher".

President Neugebauer agreed it is still higher, that is why she cannot understand the minus.

GM Nordbak, "our number is based on the highest, and has now declined for the last three years".

President Neugebauer clarified that it isn't declining because of Prop 13.

GM Nordbak agreed, the decline is because those people in the green to the right, theirs fluctuates according to value period. They have no protection of Prop 13. Since it plateaued, then declined three straight years, and MCSD is based year to year, so MCSD sees a net decrease every year.

Director Rice summarized, because the cost of their home has decreased, so their taxes have decreased.

GM Nordbak concurred, and it is still higher than before the Prop 13, but it has declined three straight years from MCSD's highest number. The only way MCSD's number would have continued to rise, is if property values would have continued to rise, which hasn't happened, so MCSD's 1% has declined for three straight years off of the plateau (or its highest point).

President Neugebauer confirmed that this applies to every property in the Orange County, not just the Prop 13 properties, so why is MCSD isolated.

GM Nordbak explained because those are the old ones that fluctuated, the Prop 13 properties are protected.

President Neugebauer confirmed that MCSD is still in the plus, even if those declined before property went crazy.

GM Nordbak reiterated that MCSD is in a negative on the annual bases, because MCSD has less money for the last three years, so Staff needs to budget on less income.

Finance Director Housley reminded the Board that this graph is in the presentation, so that the Board can see property taxes and see the 1%.

GM Nordbak agreed that this graph presents MCSD's 1% clearly.

President Neugebauer confirmed these are County wide numbers and so it depends on how many of those properties are in the District's Cities.

GM Nordbak agreed and directed the Board to page 12.

Director Rice interjected that most of the people on her street has sold under the Prop 13.

GM Nordbak gave an example also where his son purchased high, but the assessed value is low. His only break is through the low property taxes, which affects MCSD's income. But this graph on page 11 shows MCSD's numbers decreasing annually.

Finance Director Housley went on to explain page 12 presents the assessed property tax and reflects what the State took. Page 13 shows the user fees have been stable over the years since the two rate increases.

Director Rice commented that it would have been better to do a yearly 3% increase.

Finance Director Housley presented:

Page 14 is a reflection of the Board making a positive change to help control costs, this cost has a 10/15, and maybe 20 year horizon until it is totally phased in. This year MCSD pays 20.08% to CalPERS Retirement for the employees, 20.08% of

employee's salary, compared to same time this year would be 13.7%, it will help the District manage it's costs as well.

GM Nordbak explained that this is to show the Board that they have done one of the leading edge things that a lot of other Government Agencies will have to do. This is a long term issue and will only affect new employees which MCSD does not get that often. The Board over the term of the contract has created a 7-8% reduction in costs and it is huge, and that is why everyone is going to go that way, because that is the only way Governments are going to survive.

Finance Director Housley moved to:

Page 15, this reflects how the interest rates have been really depressed, which really ties to the short term investments. However, there is talk that in the near horizon, as the stimulus packages go away and the Government has to start taking some of the liquidity out of the system, that the rates will go up, it is just a matter of time.

GM Nordbak stated this chart demonstrates the \$220,000 hit MCSD took, see page 1, line 8.

Finance Director Housley moved to:

Page 16, this reflects a visual of costs of \$10.00 per ton that will cost the District. The graph is a forecast of the CPI of 2.5% increase.

GM Nordbak gave handout on Prop. 13 Property Tax Assessments will be reduced statewide for 2010.

Discussion Ensued.

Director Diep expressed clarified information on page 3, line 55.

A motion was made by Director Rice and seconded by Director Krippner to approve the Fiscal Year 2009-10 Mid-Year Budget with \$6,000 removed from line 55. The motion was approved by the following vote:

AYES: Directors Diep, Epperson, Krippner, Neugebauer and Rice
NOES: None

BOARD CONCERNS

Director Diep would like to commend GM Nordbak, AGM Robbins and Finance Director Housley on a good job.

Director Rice would like to thank staff.

President Neugebauer requested future reports match to the adopted Annual Budget Document.

President Neugebauer asked Staff to be sure to include a new item to Agenda, March 2, 2010: for the wall, an "IN GOD WE TRUST".

STAFF CONCERNS

GM Nordbak reminded the Board of attendees for ISDOC, February 25, 2010 to meet at MCSD by 11:00 a.m.: AGM Robbins will be driving.

GM Nordbak reported that Nancy Gilbert had come by and dropped of her clicker for the gate and her copy of key for the doors on February 19, 2010. Pending Legal Counsel to determine if she if terminated.

GM Nordbak reported that the current office employees will be cross training for the three positions: Board Clerk, District Operator and Accounts Payable positions.

INFORMATIONAL ITEMS

No further informational items.

ADJOURNMENT

President Neugebauer adjourned the meeting at 10:42 a.m.

Al P. Krippner, Secretary