

**UKIAH VALLEY SANITATION DISTRICT**

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October 21, 2016

Mayor Steve Scalmanini  
Ukiah City Council  
City of Ukiah  
300 Seminary Avenue  
Ukiah, CA 95482

Dear Mayor Scalmanini and City Council Members,

On September 16, 2016 I took a hiatus from my duties as District Manager to attend to my medical needs. While I was on medical leave the subject of recycle water from the WWTP came forward as an issue between the City and District as well as the public. While the District has gleaned some information from secondary sources (as described below), the Board has never been approached in any official manner as to the District's interest in participating with the City in some way regarding this important issue. Upon my return from medical leave, I thought that it would be appropriate that I seek further information and understanding so that I could better advise my Board about the proposed recycle water project. And, perhaps that understanding would allow the two agencies to find a cooperative way to address this issue. My below comments and questions are for that purpose.

It is my understanding that on several occasions while I was gone that the District expressed a willingness to meet with the City and the State Water Resources Control Board representatives regarding the City of Ukiah's application for purple water loans and to work in good faith with the City and State to reasonably resolve any concerns within our control that might inhibit funding. This was done through oral communications and in written form (I refer the Council, for example, to UVSD's attorney's September 20, 2016 and October 4, 2016 letters). However, to date, the District has not been contacted by the City or State to undertake those discussions. Perhaps the City intends to use our planned negotiations as a platform to start that process with the state, but we remain unclear on the City's intent on that point.

Interaction with the State on this matter is not something the District can initiate. The City, alone, applied to the State for the loans and grants. The District was never asked to be a party to those applications so it has no standing to initiate discussions relating to the terms of the loans. That said, the District remains willing to engage in the discussion process, if the City desires. It has been several weeks or more since the District conveyed its willingness to work with the State and City on this issue. We would appreciate an update or at least some communication on the matter.

**BOARD OF DIRECTORS**

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Based on communications that the District's attorneys have had with the State Water Resources Control Board's attorney, the District was advised that:

1. The City's attempt to obtain purple water loan funding is still in the negotiation stage with the State (in other words, the District's lawsuit is just but one of multiple issues being addressed before the loan is even approved);
2. The City chose to offer the overall wastewater system revenue stream as security for the loans, which includes District funds, without first discussing the matter with the District or seeking its approval to pledge its revenue as security for the loan; and
3. There is no year end deadline.

Has there been any changes to that advisory from the State? Did the City offer to pledge the District's revenue as security for the loan? Also, please explain how the City could pledge the District's revenue without the District's permission?

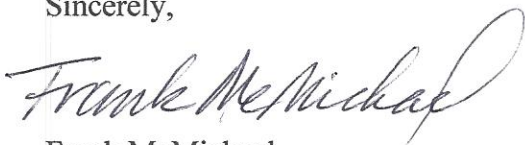
The District also previously mentioned several issues and posed several questions about the purple water program. Those issues have not been addressed nor the questions answered. As these matters impact the District and the entire wastewater system and all rate payers, we would appreciate responses. Those questions include:

1. Does the City intend to seek contribution or charge the District in some manner for an allocated share of the purple water infrastructure or operating costs, including any increased treatment costs due to the recycled water process?
2. If so, does the City intend to share revenue from the purple water program with the District or does the City claim all rights to the recycled water, including its revenue, as previously claimed? (I refer the Council to former Mayor Rodin's letter of October 13, 2011, that was attached to our attorney's letter of September 20, 2016)
3. Mr. White's April 2016 presentation to the District Board indicated that the City already had obtained funding through loans (\$25,564,000) and grants (\$2,090,191 and \$9,996,000) for the purple water program and intended to seek additional funding from both sources (I refer the Council to Mr. White's power point presentation that was attached to our attorney's letter of September 20, 2016). Apparently, contrary to Mr. White's representations to the District Board, the City did not in fact receive the loans. However, no representative from the City has attempted to make the record straight on the grant status or additional funding, so the District remains unclear. Therefore, the District asks:
  - a. Has the City received the grant money or commitment for funding?
  - b. Is receipt of the grant money conditioned on anything?
  - c. Have the additional loans and grants been applied for and, if so, what are the amounts and what is the status of those funding efforts?
4. Further, it is the District's understanding from Mr. White's presentation that the proposed purple water project would only allow for use of a portion of the treatment plant's treated discharge. So that the District Board can be better informed:
  - a. How does the City propose to deal with discharge of the remaining water?
  - b. As you know, the State Water Resources Control Board placed a cease and desist order on further discharge from the plant because of nitrate and ammonia issues. If the intent is to discharge the remaining water into the Russian River, how does the City propose to handle the state's restrictions relating to the nitrate and

- ammonia issues? If the intent is to otherwise discharge the remaining water, how and where does the City plan on doing that?
- c. Also, we understand the recycled water will be used on farms, parks, the golf course, etc. Since the need for water is greater in the warmer months than wetter months, what does the City intend to do with the plant's treated discharge in the wet months when the warm weather customers presumably can't use all or a portion of their contracted amount?
5. It is apparent from the Council's October 19, 2016, agenda (Agenda Summary Report for item 3.b.) that the District's lawsuit (and the City's counter lawsuit) is NOT the only thing holding up funding of the loan by the state. Therefore:
    - a. What other matters are holding it up?
    - b. What contingencies or conditions has the state placed on funding the loan or indicated will be conditions of funding the loan?
  6. Finally, your agenda states that the loan funding will also be conditioned on an agreement between the City and District concerning the purple water program (last sentence of the first paragraph of page two of the summary report indicated above). The City applied for the loan in November 2015. In April of this year, the City made a presentation the District Board regarding purple water and counter sued the District in June. The City's counter lawsuit was the first time the District was informed that the lawsuit impacted the purple water loan. Equally confounding, the noted October 19, 2016 agenda item for the City Council is the first time the District became aware that an agreement between the District and the City on the purple water project is a condition of funding. Only by reading the Council's agenda packet did we become aware of this. There had been no communication from the City about this need. Therefore,
    - a. Why did the City not indicate to the Board during the April presentation that the lawsuit impacted the loans from the State and why was the Board not informed that an agreement between the City and the District was a condition of funding?
    - b. Why did the City wait until nearly one year after it applied for the loan to indicate to the Council and the public that the District's involvement or agreement on the project was required when the agreement was a condition of the loan?
    - c. Exactly what type of agreement does the state need or find acceptable?

Again, the District would appreciate responses to these questions so we may understand the impact on the District and plan accordingly. Certainly, we all need to be fully informed about these matters in order to work cooperatively and move forward with the best interests of our rate payers in mind.

Sincerely,



Frank McMichael  
District Manager