



# PAJARO VALLEY WATER MANAGEMENT AGENCY

36 BRENNAN STREET • WATSONVILLE, CA 95076

TEL: (831) 722-9292 • FAX: (831) 722-3139

email: info@pvwma.dst.ca.us • http://www.pvwma.dst.ca.us

Board of Directors Meeting  
PVWMA Conference Room

July 28, 2009 2:00 p.m.  
36 Brennan Street, Watsonville, CA

## SPECIAL BOARD MEETING NOTICE AND AGENDA<sup>1</sup>

Agenda Item	Page #
1. Call to Order	
2. Roll Call of the PVWMA Directors: Dennis Osmer (Chair), Rosemarie Imazio (Vice-chair), John G. Eiskamp, Dave Kegebein, Mike Dobler, Warren Koenig	
3. Pledge of Allegiance	
4. Oral Communications: Audience Members may speak on any item pertaining to the PVWMA's jurisdiction that is on the agenda for this meeting. Not to exceed three (3) minutes.	
5. Discussion and/or Action Item	
A. Consider approval of Resolution 2009-05 Authorizing Release of Rate Stabilization, Operation and Special Revenue reserves.	
6. Adjournment	

<sup>1</sup> Pursuant to Cal. Govt. Code §54953(b), Directors Dobler and Osmer will appear via teleconference from 174 Struve Road, Moss Landing, CA 95039, and 135 Aviation Way, #7, Watsonville, CA 95076, respectively.

PVWMA is a state-chartered local Agency formed "to efficiently and economically manage existing and supplemental water supplies in order to prevent further increase in, and to accomplish continuing reduction of, long-term overdraft and to provide and insure sufficient water supplies for present and anticipated needs within the boundaries of the Agency. It is anticipated that long-term overdraft problems may not be solved unless supplemental water supplies are provided. The water management Agency should, in an efficient and economically feasible manner, utilize supplemental water and available underground storage and should manage the groundwater supplies to meet the future needs of the basin." This agenda is subject to revision and may be amended prior to the scheduled meeting. If amended, a Final Agenda will be posted at the PVWMA offices at 36 Brennan Street, Watsonville, 72 hours prior to the meeting. Copies of the Final Agenda will be available at the Board Meeting.



## Resolution 2004-21

A Resolution of the Board of Directors of the  
Pajaro Valley Water Management Agency

### **Revising Cash Levels for Operation and Maintenance, Repair and Replacement, Debt Service and Rate Stabilization reserves**

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The Board of Directors of the Pajaro Valley Water Management Agency does resolve as follows:

**WHEREAS**, by Resolution 2004-12 on June 16, 2004, the Board of Directors of the Pajaro Valley Water Management Agency adopted a Cash Reserve Policy with guidelines for specific reserves and minimum funding levels; and

**WHEREAS**, subsequent to June 2004, the assumptions that guided the Board of Directors in establishing said specific reserves and minimum funding levels have been re-evaluated; and

**WHEREAS**, the PVWMA Administrative/Finance Committee, at its meeting of November 10, 2004, reviewed and discussed revising the current fiscal year's budget to reflect the current progress of the BMP project implementation; and

**WHEREAS**, the PVWMA Administration Finance/Committee at said meeting also reconsidered the levels of reserves needed through the end of the current budget year, and recommended that the Board retain the established levels for the Operations and Maintenance Reserve and for the Debt Service Reserve, and further recommended that the Board eliminate the Repair and Replacement Reserve and the Rate Stabilization Reserve for the remainder of the current year budget, with the latter two Reserves to be reconsidered for inclusion in the annual budget for the 2006 fiscal year.

**NOW, THEREFORE**, the Board of Directors of the Pajaro Valley Water Management Agency does hereby resolve to retain the Operations and Maintenance Reserve and the Debt Service Reserve and to eliminate the Repair and Replacement and Rate Stabilization Reserves for the remainder of the 2004-05-budget year.

**PASSED AND ADOPTED** by the Pajaro Valley Water Management Agency, County of Santa Cruz, State of California, the 17<sup>th</sup> day of November 2004, by the following vote:

**AYES: Directors:** Capurro, Carroll, Imazio, Miljanich


**NOES: Directors:** Eiskamp

**ABSENT: Directors:** Gallino, Dobler

**ABSTAIN: Directors:** None

  
\_\_\_\_\_  
Frank W. Capurro, Chair

Attest:

  
\_\_\_\_\_  
Linda Contreras, Secretary



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**ADMINISTRATIVE/FINANCE COMMITTEE MEETING**

**MINUTES**

**Held at PVWMA Conference Room, Wednesday, November 10, 2004**

1. The meeting was called to order at 2:00pm. Present were:  
Committee members: John Eiskamp, Gwen Carroll, and Ralph Miljanich (chair)  
Staff: Charlie McNiesh, Linda Contreras, Michelle Platero  
Public Present: Steve Clary, Warren Koenig, Nancy Isakson
2. Welcome and Introductions.
3. Director and public Comments- None
4. Minutes Approved for September 8, 2004 and October 13, 2004 committee meetings.
5. Reviewed the monthly financial reports and disbursements ledgers for the month of October. Reviewed BMP progress reports projected expenses. Agreed that progress report will be presented monthly with actual costs updated quarterly. Director Eiskamp requested that contract commitments be reviewed monthly.
6. Discussed and reviewed proposed contractual obligations for budget and cash flow implications.
7. Discussed budget and cash flow implications of augmentation charge rates at \$160 and \$170 per acre-foot.
8. Reviewed proposed amended budget for FY 2004-2005 with augmentation charge rates of \$160 and \$170 per acre-foot.
9. Discussed reducing budgeted reserves for FY 2004-2005.
10. Future agenda items: Flexible start time for Admin meeting either 1:30 or 2.00
  - a. Committee members agreed to adjusting the committee meeting start time from 2:00 to 1:30 based on the members needs.
  - b. Staff engineer positions pay range discussed.
11. Adjourn 2:50p.m.



**Resolution 2004-21**

A Resolution of the Board of Directors of the  
Pajaro Valley Water Management Agency

**Revising Cash Levels for Operation and Maintenance, Repair and  
Replacement, Debt Service and Rate Stabilization reserves**

---

The Board of Directors of the Pajaro Valley Water Management Agency does resolve as follows:

**WHEREAS**, by Resolution 2004-12 on June 16, 2004, the Board of Directors of the Pajaro Valley Water Management Agency adopted a Cash Reserve Policy with guidelines for specific reserves and minimum funding levels; and

**WHEREAS**, subsequent to June 2004, the assumptions that guided the Board of Directors in establishing said specific reserves and minimum funding levels have been re-evaluated; and

**WHEREAS**, the PVWMA Administrative/Finance Committee, at its meeting of November 10, 2004, reviewed and discussed revising the current fiscal year's budget to reflect the current progress of the BMP project implementation; and

**WHEREAS**, the PVWMA Administration Finance/Committee at said meeting also reconsidered the levels of reserves needed through the end of the current budget year, and recommended that the Board retain the established levels for the Operations and Maintenance Reserve and for the Debt Service Reserve, and further recommended that the Board eliminate the Repair and Replacement Reserve and the Rate Stabilization Reserve for the remainder of the current year budget, with the latter two Reserves to be reconsidered for inclusion in the annual budget for the 2006 fiscal year.

**NOW, THEREFORE**, the Board of Directors of the Pajaro Valley Water Management Agency does hereby resolve to retain the Operations and Maintenance Reserve and the Debt Service Reserve and to eliminate the Repair and Replacement and Rate Stabilization Reserves for the remainder of the 2004-05-budget year.

**PASSED AND ADOPTED** by the Pajaro Valley Water Management Agency, County of Santa Cruz, State of California, the 17<sup>th</sup> day of November 2004, by the following vote:

**AYES: Directors:** Capurro, Carroll, Imazio, Miljanich

**NOES: Directors:** Eiskamp

**ABSENT: Directors:** Gallino, Dobler

**ABSTAIN: Directors:** None

  
\_\_\_\_\_  
Frank W. Capurro, Chair

Attest:

  
\_\_\_\_\_  
Linda Contreras, Secretary



## Resolution 2004-12

A Resolution of the Board of Directors of the  
Pajaro Valley Water Management Agency

### Adopting a Cash Reserve Policy

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The Board of Directors (Board) of the Pajaro Valley Water Management Agency (Agency) does resolve as follows:

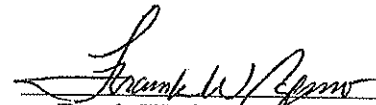
**WHEREAS**, in view of the Agency's current and expected capital improvement program and borrowings associated with the Basin Management Plan (BMP), the Board of Directors has determined that it is prudent to formally articulate a Cash Reserve Policy establishing general guidelines on cash reserves that will help to ensure the Agency's long-term financial and operational stability; and

**WHEREAS**, the Cash Reserve Policy will serve as an important management decision-making tool in planning for and evaluating activities or transactions that could have a significant impact on Agency finances.

**NOW, THEREFORE, BE IT RESOLVED**, that the Board of Directors of the Pajaro Valley Water Management Agency does hereby adopt the Cash Reserve Policy, attached to this resolution as Exhibit A and incorporated herein.

**PASSED AND ADOPTED** by the Pajaro Valley Water Management Agency, County of Santa Cruz, State of California, the 16th day of June 2004, by the following vote:

<b>AYES:</b>	<b>Directors:</b>	Capurro, Carroll, Dobler, Eiskamp, Imazio, Miljanich
<b>NOES:</b>	<b>Directors:</b>	None
<b>ABSENT:</b>	<b>Directors:</b>	Gallino
<b>ABSTAIN:</b>	<b>Directors:</b>	None

  
\_\_\_\_\_  
Frank W. Capurro, Chair

Attest:

  
\_\_\_\_\_  
Linda Contreras, Secretary



EXHIBIT A

# Pajaro Valley Water Management Agency Cash Reserve Policy

## Introduction

The Pajaro Valley Water Management Agency (PVWMA or the Agency) Cash Reserve Policy establishes general guidelines on cash reserves that will help to ensure the Agency's long-term financial and operational stability. In this capacity, the Cash Reserve Policy articulates a comprehensive set of reserves that seek to mitigate operational, capital, and debt service risks PVWMA may encounter.

The Cash Reserve Policy is being established in the context of PVWMA's current and expected capital improvement program and borrowings associated with the Basin Management Plan (BMP). Since reserve targets are based on certain assumptions and estimated costs and risks for PVWMA, the Cash Reserve Policy and established reserve levels will be reviewed annually or more often if there is a material change in the risk exposures to PVWMA. It is noted that the Cash Reserve Policy is established to provide general guidelines for fiscally responsible cash management. The Cash Reserve Policy is not intended to set strict limits that must be adhered to in a vacuum, nor is it intended to be all-inclusive in the sense that there remain a variety of factors outside the purview of the policy that could materially impact PVWMA's financial condition. Certain risks and risk probabilities have been considered to be sufficiently remote or to require a scale of reserves that would be prohibitive as compared to the probability of such an outcome, and this policy does not purport to address such risks. Instead, these guidelines are intended to serve as a management decision-making tool in planning for and evaluating activities or transactions that could have a significant impact on the level of cash on hand.

## Categories of Cash Reserves

The Cash Reserve Policy recommends the creation of four separate reserve funds:

- Operation & Maintenance Reserve
- Repair & Replacement Reserve
- Debt Service Reserve
- Rate Stabilization Fund

## Summary of Recommended Reserve Levels

<b>Reserve Category</b>	<b>Recommended</b>
Total Operating Reserve	180 days of expenditures
Total Repair & Replacement Reserve	5%-10% of annual capital budget
Total Debt Service Reserve	Average Annual Debt Service for debt service obligations that do not have their own reserve
Rate Stabilization Fund	[ To be Determined]

Each reserve is summarized below with an explanation as to the methodology that was used to size each reserve.

# Operation & Maintenance Reserve

## Purpose

The purpose of the Operation & Maintenance Reserve is to provide greater stability in annual operations even under unforeseen and changing circumstances as relates to both revenues and expenses. Utilities such as PVWMA are subject to a broad array of risks, which may vary from small, temporary disruptions of business to substantial events. The intent of the Cash Reserve Policy is to set an overall reserve level that is reasonable, defensible and consistent with the aggregate risk profile that PVWMA faces in effectively managing water supplies in the Pajaro Valley.

## Methodology

Many water utilities, which generally operate on a monthly billing cycle, maintain operating reserves at a level of 60 to 180 days of operating expenses. Typically it is utilities in the most stable operating environments that are able manage with reserves on the smaller end of this range, while many agencies with significant annual volatility in revenues or expenditures or those undergoing significant expansion have substantially larger operating reserves.

## Operation & Maintenance Reserve Policy

PVWMA will maintain an Operation & Maintenance Reserve equal to 180 days of operating expenses.

<b>Operation &amp; Maintenance Reserve</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Projected Operating Expenditures (\$MM)	2.75	3.20	4.10	6.10	6.29	6.52	6.74	8.32
Projected Reserve Amount (\$MM)	1.37	1.60	2.05	3.05	3.14	3.26	3.37	4.16

# Repair & Replacement Reserve

## Purpose

PVWMA's BMP is made up of projects that will increase water supply to the Pajaro Valley and significantly expand PVWMA's existing infrastructure. The purpose of the Repair & Replacement Reserve is to fund the unplanned repair or replacement of capital assets and to allow PVWMA to absorb fluctuations in the capital plan without an immediate rate impact to customers.

## Methodology

Given the significant capital improvements in which the Agency has invested over the past several years and the sizeable capital plans associated with implementation of the BMP, the creation of a Repair & Replacement Reserve to ensure the availability of funds to respond to unexpected needs is prudent. The average annual budget for ongoing capital improvement projects through the year 2007 (expected to be the final year of BMP construction) is \$31.8 million. A reserve funding level of 5-10% of annual capital expenditures helps to ensure that in case of emergencies or damage to capital assets, the Agency will have the financial capability to repair the problem.

## Repair & Replacement Reserve Policy

PVWMA will maintain a Repair & Replacement Reserve equal to 5-10% of the average annual capital budget.

<b>Repair &amp; Replacement Reserve</b>	
Projected Average Annual Capital Budget (\$MM)	\$31.8
Projected Reserve Amount (\$MM)	\$1.59-\$3.18

## Debt Service Reserve

### Purpose

The purpose of the Debt Service Reserve is to provide PVWMA with funds dedicated to paying the Agency's debt service obligations in the event of a significant, unexpected decrease in operating revenue during which operating funds may be insufficient to meet such obligations.

### Methodology

Typical municipal bond covenants require the establishment of a debt service reserve fund in an amount equal to maximum or average annual debt service on the bonds. Such a requirement exists in connection with the Agency's Series 1999 Certificates of Participation. It would be prudent for PVWMA to also set aside reserves in connection with its other debt, in particular its nearly \$15 million of outstanding State Revolving Fund loans. The Agency's annual payments in respect of these loans are significant, representing the equivalent of approximately 38% of projected annual operating costs for FY2004-05.

### Debt Service Reserve Policy

PVWMA will maintain a debt service reserve to be funded at level equal to average annual debt service on obligations for which a separate reserve fund held by a bond trustee or similar party does not exist.

<b>Debt Service Reserve</b>	
Projected Reserve Amount (\$MM)	\$1.04

## Rate Stabilization Fund

### Purpose

The Rate Stabilization Fund is established to provide short-term rate stability in case of an unexpected drop in revenue or increase in expenses. Among other things, the rate stabilization reserve affords PVWMA with added flexibility in meeting its financial covenants to bondholders in the event of a financial shock to the Agency.

### Methodology

Unlike other reserves, the rate stabilization reserve is typically not a percentage or ratio, but rather a fixed amount. The Agency does not currently maintain a rate stabilization fund. However, given the difficulty PVWMA could face if it needed to raise rates quickly to address an unexpected financial challenge, it is prudent to establish a Rate Stabilization Fund. The funding of such a reserve is highly dependent upon the expected variability in PVWMA's revenue stream and the level of total annual debt service, among other factors.



## Rate Stabilization Fund Policy

PVWMA will maintain a rate stabilization fund in the amount of \$\_\_\_\_\_.

<b>Rate Stabilization Fund</b>	<b>Amount</b>
Funding Target (\$MM)	[TBD]

## Annual Review Process

PVWMA plans to review and reevaluate the reserve funding levels annually. Since reserve targets are based on certain estimates, assumptions, and risk probabilities, the Cash Reserve Policy will be revisited more frequently if there is a change in PVWMA's operations, capital program, or debt service obligations that would warrant review of these policies.



## Resolution 2007-13

A Resolution of the Board of Directors of the  
Pajaro Valley Water Management Agency

Creating a New Reserve Account of \$4 Million Dollars to be held for Possible  
Distribution after a Final Legal Determination is Rendered on the Agency's  
Validation Action

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The Board of Directors of the Pajaro Valley Water Management Agency does resolve as follows:

**WHEREAS**, on May 21, 2007, the Sixth Appellate District Court of Appeal issued its decision in the matter of *Pajaro Valley Water Management Agency v. Amrhein*, concluding that Agency failed to follow the procedural requirements of Proposition 218 in adopting Ordinance 2003-01, which increased the Agency's augmentation charge from \$80-\$120 per acre-foot; and

**WHEREAS**, in reversing its prior determination in July of 2006 upholding the validity of Ordinance 2003-01, the Court of Appeal concluded that it was bound by precedent established by the California Supreme Court in *Bighorn-Desert View Water Agency v. Verjil*; and

**WHEREAS**, on June 6, 2007, the Board of Directors of the Pajaro Valley Water Management Agency voted challenge the Court of Appeal decision by seeking a petition for review by the State Supreme Court; and

**WHEREAS**, on June 20, 2007, the Board of Directors of the Pajaro Valley Water Management Agency took action to continue Agency billing at \$160/Acre-Foot until a final legal determination of the Agency's Validation Action is available; and

**WHEREAS**, Agency staff estimates that \$4 million dollars is a justifiable amount of funds to be set aside in a newly created reserve account for possible distribution at a later time after a final legal determination is rendered on the Agency's Validation Action.

**NOW, THEREFORE, BE IT RESOLVED**, by the Board of Directors of the Pajaro Valley Water Management Agency that the Agency create a new reserve account of \$4 million dollars to be held for possible distribution after a final legal determination is rendered on the Agency's Validation Action.

**PASSED AND ADOPTED** by the Pajaro Valley Water Management Agency, County of Santa Cruz, State of California, the 20<sup>th</sup> day of June, 2007, by the following vote:

**AYES:** Dobler, Imazio, Cervantes, Osmer, Koenig

**NOES:** Eiskamp

**ABSENT:** Kegebein

**ABSTAIN:** None

Michael Dobler, Chair

Attest:

Linda Contreras, Secretary

PVWMA

Available Cash Analysis

22-Jun-09

	<b>Fund 10</b>	<b>Fund 20</b>	<b>All Funds</b>
<b>Board approved reserves</b>			
Operating	400,000	1,200,000	1,600,000
Debt Service SWRCB Loan		338,075	338,075
Debt Service - All other		61,925	61,925
Rate Stabilization		4,000,000	4,000,000
<b>Total Reserves</b>	<b>400,000</b>	<b>5,600,000</b>	<b>6,000,000</b>
First National Bank Checking	480,981	2,480	
First National Bank Cash Management		495,146	
LAIF	1,039,497		
Citigroup SB		5,279,388	
<b>Total Cash</b>	<b>1,520,479</b>	<b>5,777,015</b>	<b>7,297,493</b>
<b>Available Cash (Total less reserves)</b>	<b>1,120,479</b>	<b>177,015</b>	<b>1,297,493</b>



**Resolution 2009-05**

A Resolution of the Board of Directors of the  
Pajaro Valley Water Management Agency

Releasing Rate Stabilization, Operation and Special Revenue Reserves

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The Board of Directors of the Pajaro Valley Water Management Agency does resolve as follows:

1. That the sum of \_\_\_\_\_ shall be transferred from the Rate Stabilization, Operation and Special Revenue reserve accounts to the General Fund; and
2. That Resolution No. 2007-13, establishing the Rate Stabilization reserve account, is hereby repealed.

**PASSED AND ADOPTED** by the Pajaro Valley Water Management Agency, County of Santa Cruz, State of California, the 28<sup>th</sup> day of July, 2009, by the following vote:

**AYES:** Directors:  
**NOES:** Directors:  
**ABSENT:** Directors:  
**ABSTAIN:** Directors:

\_\_\_\_\_  
Dennis Osmer, Chair

Attest:

\_\_\_\_\_  
Secretary

## MEMORANDUM

**DATE:** July 24, 2009  
**MEETING OF:** July 28, 2009  
**TO:** Board of Directors  
**FROM:** General Manager  
**RE:** **ACTION ITEM 5A:** Consider Resolution 2009-05, Releasing Rate Stabilization, Operation and Special Revenue Reserves

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### BACKGROUND

On June 16, 2004, the Board approved Resolution 2004-12, establishing a Cash Reserve policy, setting forth guidelines for adequate reserves for Operation and Maintenance, Repair and Replacement, Debt Service and Rate Stabilization. Subsequently, on June 20, 2007, in response to the Court of Appeal's adverse ruling in *PVWMA v. Amrhein, et al.*, the Board approved Resolution 2007-13, establishing a new Reserve Account of \$4 Million Dollars to be held for pending final resolution of the Agency's validation action. The purpose of these actions was to formally articulate cash reserve policy guidelines for use as a tool in maintaining the Agency's long-term financial and operational stability. As discussed at the last regular meeting, however, the Agency's current cash flow picture require the release of certain funds held in reserve in order to continue to meet the Agency's ongoing operating expenses, and to fulfill current contractual commitments.

The Available Cash Analysis dated June 22, 2009, indicates available cash (in excess of reserves) of \$1,297,493. Accessing reserves will be required as the second refund payment of \$1,393,077 and the debt service payment of \$1,711,702 to the City of Watsonville are due by months end.

On July 13, 2009, the Administrative/Finance Committee reviewed and discussed Cash Flow Scenario for 2009/10, resulting in a recommendation that the Board consider releasing the \$4 million rate stabilization reserve. The proposed resolution attached hereto also reflects the staff recommendation to consider also releasing the operation and special revenue reserves. Debt service reserves would not be affected by this action.

### FISCAL IMPACT

Release of funds currently held in the above-referenced reserve accounts is necessary based on previously reviewed cash flow projections.

### STAFF RECOMMENDATION

That the Board approve Resolution 2009-05, Release Rate Stabilization, Operation and Special Revenue Reserves

### ATTACHMENTS

- Draft Resolution 2009-05
- Resolution 2004-12
- Resolution 2007-13

- Agency cash flow projections
- PVWMA Available Cash Analysis, June 22, 2009
- PVMWA Refunds Status – Claims, 7/14/09
- City of Watsonville Invoice #89530

PVWMA Refunds Status  
 Claims 7/14/09

**Claims**

RefundTypeRequested	Claims	Amount
Check	1905	\$8,789,953.54
Acct(s) Credit	235	\$2,682,382.15
Total	2140	\$11,472,335.69

**Payments & Credits**

	Checks Total
Checks - Paid Claims	\$1,597,128.08
<i>qryCredits_DetailsSummary</i>	Credits Total
Acct(s) Credits Applied	\$2,198,156.56

**Next Payment (by 7/31/09) Estimate:**

Claims	Est Amount
400	\$1,393,076.98

# CITY OF WATSONVILLE

FINANCE DEPARTMENT  
Accounts Receivable • (831) 768-3450



MAKE CHECKS PAYABLE TO: CITY OF WATSONVILLE  
MAIL PAYMENT TO: P.O. BOX 149  
WATSONVILLE, CA 95077-0149

INVOICE DATE: 07/23/09  
INVOICE #: 89530  
CUSTOMER #: 10453  
DUE DATE: 07/23/09  
AMOUNT DUE: 1,711,702.00

AMOUNT PAID: \_\_\_\_\_

PAJARO VALLEY WATER MANAGEMENT AGENCY  
36 BRENNAN STREET  
WATSONVILLE CA 95076  
USA

**PLEASE RETURN THIS PORTION WITH YOUR PAYMENT.  
PAYMENT MUST BE RECEIVED BY THE DUE DATE IN ORDER TO AVOID AN ADDITIONAL PENALTY.**

DETACH HERE - RETAIN BOTTOM PORTION FOR YOUR RECORDS

TERMS: DUE UPON RECEIPT  
WATER RECYCLE FACILITY DEBT SERVICE PAYMENT

WA	10 INTEREST PAYMENT	1,294,059.00
WA	20 COW ADVANCE PAYMENT	417,643.00
	SUBTOTAL	1,711,702.00
	TOTAL INVOICE	1,711,702.00 =====

CUSTOMER #: 10453      INVOICE #: 89530      DUE DATE: 07/23/09