

MINUTES OF A MEETING OF THE
FINANCE/INVESTMENT COMMITTEE
OF THE VALLECITOS WATER DISTRICT
MONDAY, JULY 29, 2019 AT 4:00 P.M.
AT THE DISTRICT OFFICE, 201 VALLECITOS DE ORO,
SAN MARCOS, CALIFORNIA

Director Sannella called the meeting to order at the hour of 4:00 p.m.

Present: Director Sannella
 Director Martin
 General Manager Pruim
 District Engineer Gumpel
 Finance Manager Owen
 Development Services Senior Engineer Scholl
 Accounting Supervisor Glenn
 Financial Analyst Arthur
 Administrative Secretary Johnson

ITEM(S) FOR DISCUSSION

Director Sannella stated the Committee would address Item 4. Capacity Fee Status first.

CAPACITY FEE STATUS

General Manager Pruim stated this item will be presented to the full Board for adoption at the August 7 Board meeting.

District Engineer Gumpel stated staff met with a representative of the Building Industry Association (BIA) four or five times, General Manager Pruim met and communicated directly with the BIA as well, and staff was in constant contact with them during the capacity fee study. This item was originally going to be presented to the Board in June; however, the BIA requested a 30-day extension six weeks ago, and despite General Manager Pruim's attempts to meet, the BIA has not responded.

District Engineer Gumpel provided a presentation on three capacity fee scenarios detailing the cost components of the fee. The difference between the options is interest rate percentages. Option "A" assumes short-term rates equal to or greater than 6.0% and long-term rates equal to or greater than 8.0%; Option "B" assumes 5.0% and 6.5%; and Option "C" assumes 4.5% and 6.0%. Short-term refers to five-year increments. Option "A" is the starting point determined by staff. Option "B" was determined after talking with consultants as a good estimate of current rates. Option "C" is what the consultants determined to be the bottom and may be too optimistic. All three options are viable. Cost components of the capacity fee for water include distribution, storage, pumping, debt service and shortfall. Cost components for the sewer capacity fee include collection, land outfall, treatment, EWA capital, debt service and shortfall.

General discussion took place regarding the old Buena outfall which Carlsbad is going to purchase, a new line Buena is going to be constructing, capacity ownership and transfer of capacity.

District Engineer Gumpel provided a comparison of water and sewer capacity fees between Vallecitos' proposed fees and comparable local agencies. The District's sewer capacity fee would be the highest. Contributors for the high increase in sewer are outfall and treatment costs.

During further discussion about the three options, District Engineer Gumpel clarified that if an option is selected and interest rates or project costs increase, it would require Board action and public notice to increase the fees. If fees are lowered, the process is not required and can be done internally by staff. There is also no requirement that the process has to be 60 days.

The consensus of the Board and staff was to recommend the Board adopt Option "C" and an annual review of the capital facility fees.

Mike Hunsaker, member of the public, expressed his concern about University Villages and North City student dorms that have three to four bedrooms per dorm with double occupancy. The average number of students will be more than the average apartment with 2.2 residents per apartment. He believes a better metric to use would be the number of bedrooms rather than the number of bathrooms and how laundry is handled in the dorms should be considered. He also expressed his concerns regarding the cost of power at EWA and the Woodward senior apartments purchasing capacity at a lease rate. What does the District charge for excess?

District Engineer Gumpel responded to Mr. Hunsaker's questions.

FY 2019/2020 OVERHEAD RATE

General Manager Pruim stated this is an annual item that is tentatively scheduled for the August 7 Board meeting.

Finance Manager Owen distributed the overhead rate calculation, stating that the source of the calculation is the approved budget. He provided a presentation on the overhead rate as follows:

- Purpose
- Background/Methodology
- Recommended Methodology
- Current Year Calculation – Indirect Costs
- Current Year Calculation – Direct Costs
- Current Year Calculation
- Prior Year Comparisons
- Next Steps

Finance Manager Owen stated the overhead rate for Fiscal Year (FY) 2019/2020 is 217.48%, a decrease from the previous year's rate of 219.43%.

STATUS OF PERS PAYMENTS

Accounting Supervisor Glenn stated an extra discretionary payment in the amount of \$834,000 was paid to PERS at the end of June. At the end of last week, a required \$1.132 Million was paid to PERS for FY 2019/2020. Upon receipt of the PERS actuarial valuation in mid-August, plans will be made to pay the extra \$8.1 Million discretionary payment.

Finance Manager Owen stated the \$834,000 came out of reserves. The required payment is paid up front which saved the District approximately \$40,000.

The PERS actuarial valuation will be presented to this Committee when it has been received.

COST OF SERVICE STUDY UPDATE

Finance Manager Owen stated 17 Request for Proposals were sent out last month. The District received two proposals. After reviewing the proposals, staff unanimously selected Raftelis Financial Consultants, Inc. as the most qualified consultant for the Cost of Service Study. Their proposal came in at \$63,000 after modifying the scope. This item will be presented to the Board for contract approval at the August 7 Board meeting.

General discussion took place during which Finance Manager Owen stated he anticipates adoption of the new rates in January 2020. General Manager Pruim stated the Proposition 218 public hearing will be scheduled near the end of this calendar year.

OTHER BUSINESS

None.

PUBLIC COMMENT

Mike Hunsaker, member of the public, commented that there are huge developments coming up. Two of these huge developments could consume all of the projections over 10 years. He believes capacity fees must be spent over a five-year period. At what point does the District consider doing a new Master Plan if all of these developments come in at once?

District Engineer Gumpel explained that the District has a planning document adopted by the Board that follows the statutes adopted by SANDAG or other land use agencies; therefore, the District can utilize capacity fees over twenty plus years. Also, the District performs a water/sewer study for every development that compares the development to the Master Plan. If the development is accelerating use, the District collects capacity

fees up front and accelerates the necessary infrastructure. The fact that capacity fees will now be reviewed annually will also be beneficial. When the City of San Marcos adopts a new General Plan, the District will review its Master Plan to determine if there are significant differences that warrant a new Master Plan.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at the hour of 5:32 p.m.