MINUTES OF A MEETING OF THE
FINANCE/INVESTMENT COMMITTEE
OF THE VALLECITOS WATER DISTRICT
TUESDAY, OCTOBER 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 4:04 p.m.

Present: Director Sannella
Director Martin
General Manager Pruim
Finance Manager Owen
Accounting Supervisor Glenn
Principal Financial Analyst Arthur
Administrative Secretary Johnson

Others Present: Todd Cristiano, Senior Manager, Raftelis

ITEM(S) FOR DISCUSSION

COST OF SERVICE STUDY

General Manager Pruim stated the previous Cost of Service Study (COSS) was for a two-year period and the last rate increase from the result of that COSS took place on January 1, 2019. The District cannot increase water or wastewater rates without going through the Prop. 218 process. The adopted budget for the current fiscal year assumes an approximate 3.5% increase in revenue. He introduced Todd Cristiano, Senior Manager of Raftelis, who has been retained to perform the current COSS for the District. He further stated that Mr. Cristiano would provide an overview of the COSS process which is already underway. The tentative plan is to initiate the next Prop. 218 process in early January with the required 45-day formal notice to the public. Rate increases would be considered at a public hearing in February, and March 1, 2020 would be the target date for a rate increase to be effective. General Manager Pruim noted that Raftelis will be performing the COSS for water only. Staff will perform the wastewater COSS.

Mr. Cristiano provided a brief summary of his background and facilitated a presentation on the Water Cost of Service Rate Study as follows:

- Study Objectives
- Scope of Work
- Rate Setting is a 3-Step Process
    - Financial Plan
    - Cost of Service
    - Rate Design

- Cost of Service Analysis
- Rate Design
- Current Readiness to Serve Charges
- Current Commodity Thresholds and Rates
- Pricing Objectives Inform the “Right” Rate Structure
- Rate Structure Pricing Goals
- Rate Structure Pricing Objectives
- Balancing Competing Objectives
- Revenue Distribution by Rate Structure Component
- Possible Considerations to Meet Objectives
- Schedule

Director Sannella expressed his concern of moving too quickly on the Prop. 218 process and COSS regarding pricing objectives, etc. brought up during the presentation. He suggested the Board spend most of 2020 holding workshops to obtain public comment and educate the Board on what the pricing objectives mean with the goal of having something ready to go for 2021.

Director Martin concurred with Director Sannella, stating there is no need to rush this process and no problem delaying it for a year.

General Manager Pruim reaffirmed that the current fiscal year budget is structured with assumptions of revenue increases. If the COSS is delayed, staff could provide the Board with an estimate of how much revenue would be lost resulting in a shortfall.

Finance Manager Owen stated that the proposed timetable for doing a water rate structure is very doable. With the number of meetings and workshops planned, there would be sufficient time to inform the Board and provide them with all the details. If delayed by nine months, the District would lose the funds paid on the contract to Raftelis to perform the COSS.

General discussion took place during which Director Martin recalled that during previous discussions the Prop. 218 process was tentatively scheduled for the end of this year to keep it out of the 2020 election cycle. Director Sannella stated he believes there will be a huge learning curve for the Board and that customers should be given the opportunity to attend workshops to learn and provide feedback. Principal Financial Analyst Arthur recommended continuing with the COSS and if any problems arise, the Board could stop it and re-evaluate. Finance Manager Owen stated he does not anticipate any major changes to the current rate structure. General Manager Pruim stated that completing the COSS does not commit the Board to go through the Prop. 218 process.

Michael Hunsaker, member of the public, stated he is president of the Twin Oaks Valley Property Owners Association, a self-styled citizen advocate, is involved in a lawsuit against the Newland Sierra development and a participant in a lawsuit in San Diego. He further stated that water and Prop. 218 matter. Issues regarding Prop. 218 that he feels need to be addressed are fire and leased capacity. In 2010 Cal Fire specified they needed to increase water capacity flows for new developments. In 2011 the state mandated all homes be required to go from 25 gallons per minute (gpm) capacity to 35 gpm. In 2012 the District increased capacity fees and ready-to-serve fees (RTS) to accommodate the added capacity which he believes came to approximately $6 per month in the RTS fees for new homes. The capacity fees were later changed and went back to 500 gallons per day. There was a large hike to customers with 3/4-inch meters to cover the capacity charges. Since then, the cost of service for the most common meter, 5/8-inch, has increased dramatically supposedly to cover this capacity. They are paying for capacity they don't use. Vista does not charge 3/4-inch and 5/8-inch the same; there is about $8 to $9 per month difference in fees. The 5/8-inch meters have been charged accelerated rate increases. He doesn't believe it's fair to charge people for services they don't use or need.

General Manager Pruim clarified that there is a common driver for the two issues Mr. Hunsaker spoke of. Fire flow is a common driver for impacts on capacity fees and RTS, but they are not directly related.

Mr. Hunsaker stated that an apartment with an 8-inch meter is charged per inch. An apartment pays something like $.22 per month versus about $6 per month for a home. Another issue is whether people who are leasing capacity are paying their fair share of both capacity fees upfront; they pay for their consumption not the capacity costs that new developments don't pay. He commented on the Forest Hills legal case which questioned whether leased meters are phantom meters. General Manager Pruim stated the District does not have phantom meter charges.

PERS ADDITIONAL DISCRETIONARY PAYMENT (ADP)

General Manager Pruim stated the PERS ADP has not been made yet.

Finance Manager Owen provided background on the PERS unfunded accrued liability (UAL) funding policy approved by the Board on June 13, 2019, amortization bases, methodology used to determine how to apply the ADP, and results. Staff had to wait for CalPERS' Actuarial Valuation which came out on August 31 before analysis could be performed to determine which bases to allocate the ADP to. The District must instruct CalPERS as to how the ADP will be allocated.

Finance Manager Owen stated per the District's UAL funding policy, the District will pay off the UAL over three years with the first payment of $8,054,000 in Fiscal Year 2019/20 and explained how the payment will be allocated to the amortization bases. The District sent an ADP in the amount of $834,000 on June 25, 2019. That amount was a combination of the Encina Wastewater Authority settlement and JPIA refund check. Because we are now in the middle of the CalPERS 2019 valuation period, the ADP will not be applied until the CalPERs valuation period after that, and the District will have to pay the $1.3 million required UAL contribution.

Finance Manager Owen explained how the amortization bases work. Every year when the assumptions CalPERS makes are not met exactly, it creates new liability. There is a maximum of four potential changes to that liability every year: Non-Asset (Gain)/Loss; Asset (Gain)/Loss; Method Change; and Assumption Change. The changes for the District started in 2013. Staff calculated what the interest savings would be for each base if paid off, determined which bases had the highest savings and which bases to apply the ADP to. The net results of making the $8,054,000 ADP is a savings of $10,368,324. The UAL balance will now be $12.1 million based on the 2020/21 forecast.

General Manager Pruim stated that during the budget process next year, the Board will be asked to determine how much of the $12.1 million (subject to change) should be paid down in that budget while complying with the three-year payoff per the District's policy.

Mr. Hunsaker stated this is a good idea. There is no getting around the liabilities and increasing liabilities' costs of carrying over unfunded liability. We are probably not out of the woods yet and could have one new recession. He hasn't heard anyone talk about COLAs and purchasing power floors which should be kicking in about now for some. Anything to pay off those debts is going to save the District a lot of money.

OPEB FUNDING STATUS

Principal Financial Analyst Arthur provided a presentation on Other Post Employment Benefits (OPEB) Funding Status which included:

- Background
- Actual Accrued Liability (AAL)
- California Employer's Retiree Benefit Trust (CERBT) Balance
- OPEB % Funded
- History
- Next Steps/Questions

The District has money invested in the CERBT which was established in March 2012. The District's OPEB is a closed system as of July 2013 meaning it is no longer available to new hires. Currently there are approximately 76 active employees eligible for OPEB and 28 retirees (includes employees, spouses, and children). Current retiree health cost is approximately $375,000 per year which is being paid out of the District's budget. OPEB is for retiree medical coverage only until age 65.

Principal Financial Analyst Arthur stated that the District's CERBT is currently super funded at 110.7%. Budgeted payments into the CERBT stopped on June 30, 2018. He recommended the District begin drawing down on those funds (reimbursing itself) before July 1, 2020 as originally planned. The funds cannot be used to pay down PERS. Finance Manager Owen stated that plans are to revise the current reserve policy which currently directs funds above the ceiling to go towards OPEB.

OTHER BUSINESS

None.

PUBLIC COMMENT

Mr. Hunsaker stated he wanted to emphasize to the Board that selling the 35-acres possibly isn't the best way to utilize the property. It's okay to use for development as far as he's concerned, but the District should retain ownership and lease the property. This is probably in the long term the best solution for the rate payers. The Port of San Diego has property it chose not to sell, and they are charging a royalty of 11% on the rents. That is vastly more profitable for the government. This would be a way to address any shortfalls due to major new developments in regard to water and waste treatment capacity.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at the hour of 6:00 p.m.