

MINUTES OF A REGULAR MEETING OF THE BOARD OF DIRECTORS
OF THE VALLECITOS WATER DISTRICT
WEDNESDAY, MARCH 3, 2021, AT 5:00 PM, VIA TELECONFERENCE

President Sannella called the Regular meeting to order at the hour of 5:01 p.m.

Present: Director Boyd-Hodgson
Director Elitharp
Director Hernandez
Director Pennock
Director Sannella

Staff Present: General Manager Pruim
Legal Counsel Gilpin
District Engineer Gumpel
Finance Manager Owen
Operations & Maintenance Manager Pedrazzi
Capital Facilities Senior Engineer Morgan
Principal Financial Analyst Arthur
Information Technology Technician Todd
Executive Secretary Posvar

Director Hernandez led the pledge of allegiance.

ADOPT AGENDA FOR THE REGULAR MEETING OF MARCH 3, 2021

21-03-03 MOTION WAS MADE by Director Hernandez, seconded by Director Pennock, and carried unanimously, to adopt the agenda for the Regular Board Meeting of March 3, 2021.

PUBLIC COMMENT

General Manager Pruim read aloud written comments received from Myrna Breslin, member of the public, regarding her high monthly water bills.

CONSENT CALENDAR

Director Elitharp noted an error on Item 1.1C, stating the minutes of the February 24, 2021 Closed Session Board meeting indicate President Sannella adjourned the meeting, when in fact, he left the meeting early. The minutes will be corrected to reflect this.

21-03-04 MOTION WAS MADE by Director Boyd-Hodgson, seconded by Director Elitharp, and carried unanimously, to approve the Consent Calendar as presented with the exception of Item 1.1C.

1.1 Approval of Minutes

- A. Regular Board Meeting – February 17, 2021
- B. Finance/Investment Committee Meeting – February 22, 2021
- C. Closed Session Board Meeting – February 24, 2021

1.2 Warrant List through March 3, 2021 - \$772,720.00

ACTION ITEM(S)

AWARD OF CONSTRUCTION CONTRACT FOR THE MEADOWLARK RECLAMATION FACILITY – LED LIGHTING UPGRADE PROJECT

General Manager Pruim stated this project will improve efficiency of the lighting as well as security and safety at the District's Meadowlark Reclamation Facility.

Operations & Maintenance Manager Pedrazzi stated 79 existing lights will be retrofitted with new LED fixtures, 17 completely new LED fixtures will be added, and two additional light poles will be added for safety and security reasons, bringing the total to 10. This project was part of a District-wide energy audit. In addition to providing energy savings, the lights will be able to dim to 50% at night unless motion is detected which will reduce light pollution for neighbors of the facility.

Operations & Maintenance Manager Pedrazzi further stated bids were requested from three local electrical contractors; however, only two contractors submitted a bid. Upon their evaluation of qualifications, staff determined Baker Electric, Inc. to be the lowest, most responsive qualified bidder in the amount of \$172,609.85. Funds in the amount of \$150,000 for this project were included in the Fiscal Year 2020/21 capital budget; however, there is a projected budget shortfall of \$28,297.85 due to additional work that was determined to be necessary after the budget was approved and increased construction costs.

Staff recommended the Board increase the project budget by \$28,297.85 and authorize the General Manager to execute a construction contract with Baker Electric, Inc. in the amount of \$172,609.85, subject to the provisions of the contract.

General discussion took place.

21-03-05 MOTION WAS MADE by Director Hernandez , seconded by Director Pennock, and carried unanimously, to increase the project budget by \$28,297.85 and authorize the General Manager to execute a construction contract with Baker Electric, Inc. in the amount of \$172,609.85.

CAPITAL FACILITIES EXPANSION (CAPACITY) FUND PRESENTATION

General Manager Pruim stated that at the February 17, 2021 Board meeting, a public comment was received that raised questions about the capital facilities (capacity) fund. After limited discussion, the Board directed staff to place the topic on this Board agenda for further discussion. Staff would present a broad overview of the capacity fund, what it is, where the money comes from, and what actions the Board has taken in recent years to address the shortfall in the fund.

General Manager Pruim discussed the breakdown of District funds for tracking purposes which fall into four categories – water, wastewater, capacity and replacement, and what capital facility fees are and how they are calculated.

General discussion took place.

Finance Manager Owen facilitated a presentation on the capacity fund as follows:

- Director Questions
- District Reserves
 - Replacement Reserves – established based on the District’s reserve policy
 - Capacity Reserves – established per Government Code Section 66013
- Capacity Reserves
 - Developer-paid capacity fee rates increased 17.9% effective January 2, 2020 (water and sewer combined) and are increased annually on January 1 through the Construction Inflation Index
- Scenarios
- Capacity Fee Timing
 - Construction Inflation Index (ENR)
 - Internal Rate of Return (IRR)
- Capacity Reserves – Historical
- Capacity Reserves – Future
 - Total Growth Projects - \$45.6 million
 - Total Planned Debt Issuances - \$60.0 million
- Cash & Investments (unaudited)
- “Paper Loan”
 - Internal loan from Replacement to Capacity
 - Capacity pays interest to Replacement
 - Paid back over ten years
- Capacity Shortfall Action Plan
 - Finalized Capacity Fee Study
 - Adopted Capacity Fee Rate Increases (effective January 2, 2020)
 - Incorporated rate increases into Fiscal Year 2021 budget
 - Issue debt as outlined in the budget
 - Shortfall in capacity reserves pays interest to replacement reserves
 - Recommended annual updates to the Board on performance in relation to action plan and capacity fee model
- Conclusion
 - Deficit is not included in customer rates
 - Compliant with Proposition 218
 - Capacity fund is tracked and reported separately
 - Complies with the Mitigation Fee Act
 - Capacity Shortfall Action Plan – actively addresses deficit based on improved capacity fee calculation and debt issuance plan

Question and answer took place during and after the presentation.

General discussion took place regarding the timing of debt issuance and current low interest rates, various options the District has, the public's perception, and comparisons to other agencies in regard to the capacity fund shortfall.

Taiga Takahashi, an attorney for a District customer, inquired about how the correct level for the replacement fund is determined, the appropriateness of borrowing from the replacement fund and what is considered when doing so, and what happens to funds in excess of the optimal amount for replacement reserves. Staff responded to his questions.

General Manager Pruim read aloud written comments received from Dr. Jack Paxton, member of the public, in which he asked why rate payers have to subsidize developers, and why the District refuses to provide information on the gallons per day of desalinized water purchased from the Poseidon plant and the quality measurements on this water. General Manager Pruim stated he will contact Dr. Paxton to discuss his questions.

General Manager Pruim read aloud written comments received from Gayle Martin, member of the public, stating her concerns about the capacity deficit. Ms. Martin asked questions about the ten-year projection for paying off the deficit, how bondholders and contractors are being paid for the San Marcos Interceptor Project, why haven't resolutions of intent to issue debt or reimbursement resolutions been adopted in the last three budgets, did an item to authorize borrowing from ratepayers ever go to the Board for approval, why is the District the only agency in San Diego County with a deficit in developer money, and why hasn't the District planned ahead to set adequate and realistic developer fees to ensure development is not subsidized with ratepayer money? Staff responded to her questions.

General discussion took place.

REPORTS

GENERAL MANAGER

General Manager Pruim reported the following:

- The winter edition of the District's quarterly newsletter is being mailed out today.
- The District will be receiving a rebate from the San Diego County Water Authority (SDCWA) related to the settlement of the lawsuit between the SDCWA and Metropolitan Water District (MWD). The SDCWA received \$44.4 million from MWD and they elected to provide rebates to all of their member agencies from the proceeds. The District will receive \$1.6 million.
- The District just received notification from the Association of California Water Agencies/Joint Powers Insurance Authority that the District will be receiving an insurance refund check in the amount of \$149,764.15.

- Construction along eastbound San Marcos Boulevard is wrapping up. One traffic lane is still closed but should be reopened by the beginning of April.

DISTRICT LEGAL COUNSEL

None.

SAN DIEGO COUNTY WATER AUTHORITY

Director Elitharp reported on his attendance to a virtual SDCWA Colorado River Workgroup meeting on February 23. An update was provided on the Regional Conveyance Phase B Study which focuses on economics, partnerships and stakeholder outreach. He also attended the virtual Board meeting on February 25 at which the Board approved issuing prorated rebates from proceeds of the \$44.4 million lawsuit settlement with MWD to each of the member agencies. Attorney's fees have also been awarded but are not included in the \$44.4 million; therefore, another large rebate could be forthcoming.

ENCINA WASTEWATER AUTHORITY

President Sannella reported on his attendance to the EWA Board meeting at which the Board considered the Policy and Finance Committee's recommendation of a proposed cell tower on the South Parcel. The Board approved moving forward with the recommendation as a potential acceptable land use if the Carlsbad City Council approves it. Director Hernandez stated the proposed cell tower has the potential to generate revenue of \$3,000 to \$5,000 per month.

STANDING COMMITTEES

Director Boyd-Hodgson stated the Public Awareness/Personnel/Policy Committee met on March 1. Progress has been made on incorporating inclusive language with the District's employment application.

President Sannella stated the Finance/Investment Committee met on February 22 to kick off the budget process which will include several additional Committee meetings as well as a Board workshop. The Committee will provide regular updates to the Board.

DIRECTORS REPORTS ON TRAVEL/CONFERENCES/SEMINARS ATTENDED

Director Hernandez reported on his attendance to the virtual Association of California Water Agencies Washington, D.C. conference on February 24.

Director Elitharp reported on his attendance to the virtual California Special Districts Association San Diego Chapter quarterly meeting on February 18.

OTHER BUSINESS

None.

DIRECTORS COMMENTS/FUTURE AGENDA ITEMS

Director Hernandez requested the pledge of allegiance be placed on future Board agendas and an item on the ACWA/JPIA insurance refund be placed on a future agenda to discuss possible uses for the funds.

Director Boyd-Hodgson requested an item regarding the District's susceptibility to cyber attacks.

President Sannella requested an item to discuss use of the proceeds from the SDCWA/MWD lawsuit settlement.

Director Elitharp requested a status update on the SDCWA/MWD water rate litigation.

ADJOURNMENT

There being no further business to discuss, President Sannella adjourned the Regular Meeting of the Board of Directors at the hour of 7:41 p.m.

A Regular Meeting of the Vallecitos Board of Directors has been scheduled for Wednesday, March 17, 2021, at 5:00 p.m. via teleconference.

Michael A. Sannella, President
Board of Directors
Vallecitos Water District

ATTEST:

Glenn Pruij, Secretary
Board of Directors
Vallecitos Water District