

MINUTES OF A REGULAR MEETING OF THE BOARD OF DIRECTORS  
OF THE VALLECITOS WATER DISTRICT  
WEDNESDAY, APRIL 7, 2021, AT 5:00 PM, VIA TELECONFERENCE

President Sannella called the Regular meeting to order at the hour of 5:00 p.m.

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

Staff Present: General Manager Pruim  
Legal Counsel Gilpin  
Administrative Services Manager Emmanuel  
District Engineer Gumpel  
Operations & Maintenance Manager Pedrazzi  
Accounting Supervisor Rathsam  
Customer Service Supervisor Saavedra  
Principal Financial Analyst Arthur  
Information Technology Technician Todd  
Executive Secretary Posvar

Others Present: Sandra Kerl, San Diego County Water Authority

Director Hernandez led the pledge of allegiance.

ADOPT AGENDA FOR THE REGULAR MEETING OF APRIL 7, 2021

21-04-03 MOTION WAS MADE by Director Hernandez, seconded by Director Pennock, and carried unanimously, to adopt the agenda for the Regular Board Meeting of April 7, 2021.

PUBLIC COMMENT

General Manager Pruim acknowledged written comments received from Gayle Martin, member of the public, which were distributed to the Board.

PRESENTATION

General Manager Pruim introduced Sandra Kerl, General Manager of the San Diego County Water Authority (SDCWA). Ms. Kerl facilitated a presentation, Overview of MWD Litigation, on the status of litigation between the SDCWA and Metropolitan Water District of Southern California (MWD), as follows:

- How Did It Start?
- 1991 – 1992: Drought Crisis
- The Aqueducts
- MWD Litigation: Key Issues
  - Charging for State Water Project
  - Demand management costs on transportation
  - Not applying “offsetting benefit” credits
- Results
- What’s Left?
- Offsetting Benefits
- Offsetting Benefits Credits
- MWD Litigation – Mythbusters
- Wearing the “Ratepayers’ Hat”
- Conclusion

Ms. Kerl stated the litigation with MWD has mainly been about the cost of moving SDCWA’s Quantification Settlement Agreement (QSA) water, San Diego’s main water supply, though the Colorado River Aqueduct which is owned by MWD. The courts ruled that MWD charging their water stewardship rates on SDCWA’s QSA supplies was a breach of contract and awarded SDCWA \$44 million for the years 2011 through 2014. SDCWA recently distributed the award to its member agencies based on their water purchases during those years. MWD stopped charging water stewardship rates on SDCWA’s QSA water supplies as of 2018.

Ms. Kerl further stated that regarding the lawsuits still pending, approximately \$30 million in illegal water stewardship rates were charged to SDCWA during the years 2015 through 2017. SDCWA is seeking over \$13 million in attorney’s fees. The last major outstanding issue is reasonable credit for any offsetting benefits for use of the conveyance system, which MWD did not provide to SDCWA. MWD recently filed cross complaints for the pending cases and is also attempting to retry all of the issues for the years 2011 through 2014.

### CONSENT CALENDAR

21-04-04 MOTION WAS MADE by Director Hernandez, seconded by Director Boyd-Hodgson, and carried unanimously, to approve the Consent Calendar as presented.

#### 1.1 Approval of Minutes

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

#### 1.2 Warrant List through April 7, 2021 - \$1,286,813.40

1.3 Award of Construction Contract for the Potable Water – Arc Flash Analysis Project

1.4 Award of Construction Contract for the South Lake Pump Station Fence Project

ACTION ITEM(S)

INDEPENDENT AUDIT SERVICES FOR FISCAL YEAR 2020/21 AND FISCAL YEAR 2021/22

General Manager Pruim stated the District is required to have an annual independent audit performed per California Government Code Section 26909. The Government Finance Officers Association's (GFOA) best practices recommend governmental entities enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. This allows for greater continuity, minimizes the potential for disruption of the audit, and reduces the cost to the agency. The District entered into an agreement with certified public accounting firm DavisFarr, LLP for three years of independent audit services which includes fiscal years 2017/18, 2018/19, and 2019/20. The agreement includes an option to extend the agreement for two additional years.

General Manager Pruim further stated staff has been very pleased with the auditing services of DavisFarr, finding them to be very professional and thorough. DavisFarr also assisted in transforming the District's basic financial statements to the Comprehensive Annual Financial Report for which the District was awarded the GFOA's Certificate of Achievement for Excellence in Financial Reporting. Over the past three years, DavisFarr's rates resulted in a savings of \$12,200 to the District when compared to previous auditors. The contract extension states that the fixed audit fees will increase by a nominal 2% per year. This item was presented to the Finance/Investment Committee on March 22 for discussion.

With the Finance/Investment Committee's support, staff recommended the Board authorize the General Manager to enter into a two-year agreement to extend the contract with DavisFarr, LLP for audit services.

21-04-05 MOTION WAS MADE by President Sannella, seconded by Director Hernandez, and carried unanimously, to authorize the General Manager to enter into a two-year agreement to extend the contract with DavisFarr, LLP for audit services.

REFUNDED PROCEEDS FROM THE RESOLUTION OF THE LAWSUITS BETWEEN THE SAN DIEGO COUNTY WATER AUTHORITY AND METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

General Manager Pruim stated this item was presented to determine what to do with the \$1.6 million received from the resolution of the lawsuits between the SDCWA and MWD for the years 2011 through 2014. The District has received the funds and they have been

temporarily placed in the District's replacement reserves account pending the Board's decision. The funds relate to water rates; therefore, there are restrictions on what the funds can be used for. They may not be used for wastewater-related costs or costs associated with the Water Capacity Fund. The funds may be used for operating costs such as personnel, electricity, materials and supplies, water purchase costs, water replacement capital projects, to pay down the District's PERS unfunded accrued liability, or to refund the District's water customers.

General Manager Pruim further stated if the funds were used to defray treated water purchase costs, staff estimates each unit of water sold to customers would be reduced in cost by approximately 26 cents. A typical customer would realize \$40.68 in reduced costs over a one-year period. Staff identified three methods in which to provide refunds to current District customers:

1. Split the funds evenly among all current customers resulting in an estimated refund of approximately \$71.50 for each customer.
2. Split the funds among all current customers based on meter size. Using a meter equivalents method to compare larger meters to standard residential meters, the estimated amount of refund by meter size is \$55.16 per meter equivalent. A typical residential meter would have a meter equivalence of one; larger meters would have meter equivalents greater than one.
3. Split the funds among all current customers in a manner that reflects their actual financial contribution over a specified time period. This would be a very complex approach which staff did not recommend.

If the Board chooses to refund the lawsuit proceeds to current customers, staff does not recommend the first or third methods due to concerns of equitable distribution of refunds or the administrative complexities and costs involved.

General discussion took place. General Manager Pruim noted that customers who live in apartments would not receive a direct refund. The refund would be provided to the account holder of record, typically the property owner or manager. The same would be true for mobile home parks. The District has no control of how the account holder would handle the refunds.

General Manager Pruim stated that at the Board's direction, the Finance/Investment Committee discussed this item at their March 22 meeting. The Committee recommended the proceeds be distributed to current customers as a credit on an upcoming bill, with a notation on the bill explaining the credit and how much the bill would have been without the one-time credit. The Committee did not specify the method to calculate the refund.

General discussion took place. Staff recommended using the funds to offset future water purchase costs. Director Elitharp concurred with staff. The remainder of the Board recommended providing refunds to customers using Method 2.

Gayle Martin, member of the public, stated she knows the HOA of the senior community she lives in will not distribute any refunds it may receive to the individual homeowners.

21-04-06 MOTION WAS MADE by Director Hernandez, seconded by Director Boyd-Hodgson, and carried 4 – 1, with Director Elitharp voting no, to issue direct refunds using Method 2 to split the lawsuit proceeds among current District customers based on meter size and to announce this action in the District's newsletter and well as in a press release.

Further discussion took place. President Sannella requested staff do as much as possible to reach out to large apartment complexes and mobile home parks about the refunds for their tenants. General Manager Pruim asked for clarification as to what date should be used to determine current customers and when the refund should be credited on the customer bills. This was not determined.

#### COVID FINANCIAL REPORTING PRESENTATION

General Manager Pruim stated that in preparing the Fiscal Year 2020/2021 budget, assumptions were made regarding the financial impact COVID-19 may have on the District. Financial impacts include reduced water sales, a larger number of customers unable to pay their bills on time, reduced late fee revenue, and increased bad debt expense. Staff has been tracking the actual impacts against the budget assumptions and committed to presenting this information to the Board on a regular basis.

Principal Financial Analyst Arthur facilitated a presentation, COVID-19 Financial Plan Update, which included actual versus budget data for the first nine months of the current fiscal year as follows:

- Active Meters by Size
- Active Meters by Type
- Water Sales/Production
- Water Sales/Comparison
- Water Sales/Production (April 2020 – March 2021)
- Summary
- Bill Aging
- Delinquency Fees Waived (COVID-19 Related)
- Fee Waivers Due to COVID-19
- Number of Delinquency Fees Billed
- Delinquency Charges – Year-To-Date
- Accounts Not Locked Due to COVID-19 (March 2021)
- Lock Charges – Year-To-Date
- Bad Debt Expense – Year-To-Date

Staff will provide the Board with a year-end report at a future Board meeting.

## REPORTS

### GENERAL MANAGER

General Manager Pruim reported the following:

- San Diego County has moved into the orange tier which allows more administrative staff to return to the office. Ten employees returned today, another ten will return in two weeks. Most employees will be back two weeks after that. There have been no outbreaks at the District office.
- The San Marcos Interceptor Project has caused significant disruptions to traffic along San Marcos Boulevard. The project has slowed due to trenching issues, adjacent utilities that are difficult to work around, poor soil conditions, and nighttime work. It is anticipated that all lanes of traffic in both directions will be open by the end of April.
- A speaker's bureau virtual event with the Escondido Sunrise Rotary is scheduled for April 8 at 7:30 a.m. to discuss desalination.
- A virtual community outreach meeting with the San Elijo Hills Homeowners Association is scheduled for April 20 at 6:00 p.m. to discuss the pipeline condition assessment that will be performed in that community.
- A speaker's bureau virtual event with the Lake San Marcos Kiwanis is scheduled for May 18 at 11:00 a.m. to discuss the San Marcos Interceptor Project.

### DISTRICT LEGAL COUNSEL

Legal Counsel Gilpin discussed three new pending Assembly Bills (AB) that could make permanent changes to public meetings:

- AB 703 would continue the option to hold virtual meetings.
- AB 361 would only allow virtual meetings for declared emergencies.
- AB 339 would require virtual meetings with translation services.

### SAN DIEGO COUNTY WATER AUTHORITY

Director Elitharp reported on his attendance to the virtual Board meeting on March 25 at which the Board adopted work plans for its five standing committees for calendar years 2021 and 2022. The Board approved the location of a new treated water service connection for the City of Poway, authorized the General Manager to award a professional services contract to Brown & Caldwell for design and engineering support services for the Crossover Pipeline Interstate 15 Bypass Project, and adopted positions on numerous legislative bills.

ENCINA WASTEWATER AUTHORITY

Director Hernandez reported on his attendance to the Board meeting on March 24 at which the Board authorized the General Manager to enter into an agreement with Carollo Engineers to review the Source Control Program and its costs. The Board also authorized contracts related to the Climate Control Rehabilitation Project for the cogeneration building.

President Sannella stated the Policy and Finance Committee will meet next week.

STANDING COMMITTEES

Director Boyd-Hodgson stated the Public Awareness/Personnel/Policy Committee met to discuss close captioning of District meetings, Board training needed to maintain the District's transparency rating, the succession plan for future open positions due to retirements, timeliness of posting meeting videos and minutes to the District's website, and the continuing work on the administrative code. The Committee heard a presentation from Bill Dean about his educational programs to get students interested in water and wastewater jobs.

President Sannella stated the Finance/Investment Committee met on March 22. Topics of discussion included the renegotiation of the independent auditing contract and the use of the proceeds from the lawsuits between the SDCWA and MWD.

DIRECTORS REPORTS ON TRAVEL/CONFERENCES/SEMINARS ATTENDED

Director Hernandez reported on his participation in the virtual ACWA Washington, DC conference.

Director Boyd-Hodgson reported on her participation in the virtual ACWA Washington, DC conference. She also viewed the Metropolitan Water District's virtual tour of their planned regional recycled water advanced purification center.

OTHER BUSINESS

None.

DIRECTORS COMMENTS/FUTURE AGENDA ITEMS

Director Boyd-Hodgson requested a presentation on the infrastructure bill if it is passed and how the District may be able to obtain funds.

Director Boyd-Hodgson stated she generally does not believe public comments should be read aloud at meetings because the practice is not fair to the reader or the person who submitted the comments. As public comments have been read aloud in the past, the

practice should not be discontinued arbitrarily. Also, in the past the public was typically not invited to comment after each agenda item is presented. Protocols for these practices should be codified.

ADJOURNMENT

There being no further business to discuss, President Sannella adjourned the Regular Meeting of the Board of Directors at the hour of 6:51 p.m.

A Regular Meeting of the Vallecitos Board of Directors has been scheduled for Wednesday, April 21, 2021, at 5:00 p.m. via teleconference.

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

ATTEST:

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Glenn Pruij, Secretary  
Board of Directors  
Vallecitos Water District