

MINUTES OF A WORKSHOP MEETING OF THE BOARD OF DIRECTORS  
OF THE VALLECITOS WATER DISTRICT  
THURSDAY, MAY 6, 2021, AT 3:00 PM AT THE DISTRICT OFFICE,  
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

President Sannella called the Workshop Meeting to order at the hour of 3:00 p.m. The meeting was held via teleconference.

Present: Director Boyd-Hodgson  
Director Elitharp  
Director Hernandez  
Director Pennock  
Director Sannella (left at 3:53 p.m.)

Staff Present: General Manager Pruim  
Legal Counsel Norvell  
Administrative Services Manager Emmanuel  
District Engineer Gumpel  
Finance Manager Owen  
Operations & Maintenance Manager Pedrazzi  
Accounting Supervisor Rathsam  
Principal Financial Analyst Arthur  
Executive Secretary Posvar

Others Present: Lora Carpenter, Fieldman Rolapp & Associates

General Manager Pruim announced that a closed captioning program was being tested during the meeting.

ITEM(S) FOR DISCUSSION

BUDGET UPDATE

General Manager Pruim stated staff began working on the Fiscal Year (FY) 2021/22 budget in December and has made numerous presentations to the Finance/Investment Committee. This year staff is involving the Board in the process earlier than in the past. The Board will hear another budget presentation at the May 19 Regular Board meeting. The budget will be presented for adoption at the June 2 Regular Board meeting.

Finance Manager Owen provided a budget update and summary of the information that has already been presented to the Finance/Investment Committee as follows:

- Budget Calendar (February)
- Budget to Actual – Water
- Budget to Actual – Sewer

- Directors' Expenses
- Budget Calendar (March)
- Operating Expenses – Water
- Draft Operating Budget – Water (Projected to increase by 1.44%)
- Meters
- Draft Operating Budget – Sewer (Projected to increase by 4.64% or 1.77% excluding uncontrollable EWA costs)
- Engineering
- Budget Calendar (April)
- Preliminary Salary and Benefits (Projected to increase by 1.59%)
- Operating Budget – Salaries and Benefits
- Operating Budget – Full-Time Equivalent Employees
- Draft Capital Budget Page
- Draft Capital Budget
- Vehicles and Equipment
- Budget Calendar (April and May)

Question and answer took place after the presentation regarding Board fees and benefits, when the San Diego County Water Authority's potential rate increase will be known, and the Assistant General Manager position.

General Manager Pruum stated the approved current FY 2020/21 budget was approximately \$90.6 million. The proposed FY 2021/22 budget is approximately \$96 million, an increase of \$5.4 million. Water costs are estimated to increase \$2.7 million, roughly half of the total budget increase. Capital Improvement Program (CIP) projects are projected to increase \$4.3 million year over year. Those two line items together result in a projected \$7 million increase compared to the current year's budget.

General discussion took place.

President Sannella left the meeting at 3:53 p.m. and Vice President Elitharp ran the remainder of the meeting.

The first review of the proposed FY 2021/22 budget will take place at the May 19 Board meeting. The recommended budget will be presented to the Board for approval at the June 2 Board meeting.

#### CALPERS UNFUNDED ACCRUED LIABILITY DISCUSSION

Finance Manager Owen stated the California Public Employees' Retirement System (CalPERS) Unfunded Accrued Liability (UAL) is the District's most expensive debt by far because of its 7% interest rate on the debt and several other factors. In 2020 the District

developed a funding policy for the UAL to pay off the debt within three years. In 2021, the balance was \$11.3 million to be paid over two years. \$4 million was paid in 2021, with the balance to be reviewed in 2022. The policy provides for annual revisions when annual actuarial reports are released. CalPERS is typically a year behind on their actuarial reports. The last report, released in August 2020, is for 2019. The policy gives the District flexibility in making its payments. The District is not locked into a formal payment agreement. To avoid overpaying, the final year's payment will be reassessed when necessary. Staff will provide regular updates to the Finance Committee and Board.

Finance Manager Owen reviewed the UAL funding policy that was included in the FY 2021 budget, payments, savings, CalPERS's investment returns from 2002 to 2021 and how the returns impact the District's UAL. The 2020 rate of return was 4.55% which is estimated to result in a \$1.9 million loss for the market value of the District's assets, increasing the District's UAL from \$7.7 million to \$9.6 million. The 2021 rate of return is estimated by CalPERS to be 15% at this time which would result in a \$6 million gain for the District. If that holds true, the District's estimated UAL balance at the end of 2021 would be approximately \$3.5 million, much less than the \$7.2 million that was anticipated. Staff's recommendation of how much to pay off and the resulting expected interest savings will be presented to the Board at the May 19 meeting.

General discussion took place.

#### REQUEST FOR PROPOSALS FOR BOND ISSUANCE UNDERWRITING SERVICES

Finance Manager Owen stated the District is considering issuing debt for several reasons including:

- In the FY 2021 approved budget, the potential need for \$10 million in FY 2022 was identified for large CIP projects such as the San Marcos Interceptor project and other large sewer projects.
- Reserve levels for water and sewer for FY 2022 were reviewed with and without debt issuance. If debt is not issued in 2022, the sewer reserves will be below the floor by 2024; total reserves would be below the floor in 2025 and will not be in compliance with the District's reserve policy. This could negatively affect the District's credit rating.
- Interest rates are currently at record lows.

Lora Carpenter of Fieldman Rolapp & Associates facilitated a presentation on Capital Funding as follows:

- Rates Are Still Near Historic Lows
- District Capital Improvement Program Needs
- Finance Team

- Next Steps

General discussion took place.

Finance Manager Owen stated the majority of the costs associated with the debt issuance are unreimbursed costs which have existing reimbursement resolutions, meaning the funds have already been spent on projects. Proceeds from the debt issuance will be moved into reserves to pay for those previously spent costs. The existing resolutions totaling almost \$22 million and potentially more qualify for reimbursement.

Finance Manager Owen summarized why it is an optimal time to issue debt:

- Credit Rating Risk
- Projected Capacity Shortfall FY 2022 - \$20,651,000
- Capacity Fee Model Includes \$18 Million at 6%
- \$28 Million at 2.98% = More Debt, Lower Payment
- Debt Service Cost Increase – Approximately \$170,000 Per Year
- In 2023-24 at 4% – Approximately \$6 Million More In Interest

Finance Manager Owen stated the next step in the debt issuance process is to mail out Requests For Proposals (RFP) for bond issuance underwriting services. Staff recommends mailing the RFPs out as soon as possible.

General discussion took place.

#### OTHER BUSINESS

None.

#### PUBLIC COMMENT

General Manager Pruim stated emailed comments were received from Tom Scaglione, member of the public.

Gayle Martin, member of the public, requested the Board address Mr. Scaglione's concerns and the documentation he sent to the Board.

General Manager Pruim stated he believes most of Mr. Scaglione's concerns were addressed during the budget presentation. Director Elitharp requested staff prepare a response to Mr. Scaglione's concerns and provide it to the Board.

ADJOURNMENT

There being no further business to discuss, Vice President Elitharp adjourned the Workshop Meeting of the Board of Directors at the hour of 5:55 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, May 19, 2021, at 5:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.

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Craig Elitharp, Vice President  
Board of Directors  
Vallecitos Water District

ATTEST:

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Glenn Pruiem, Secretary  
Board of Directors  
Vallecitos Water District