

MINUTES OF A MEETING OF THE
FINANCE/INVESTMENT COMMITTEE
OF THE VALLECITOS WATER DISTRICT
MONDAY, AUGUST 24, 2021 AT 3:30 P.M.
VIA TELECONFERENCE

Director Sannella called the meeting to order at the hour of 3:30 p.m. The meeting was held via teleconference.

Present: Director Boyd-Hodgson
Director Sannella
General Manager Pruim
District Engineer Gumpel
Finance Manager Owen
Accounting Supervisor Rathsam
Public Information/Conservation Supervisor Robbins
Principal Financial Analyst Arthur
Administrative Secretary Johnson

ITEM(S) FOR DISCUSSION

SCHOLARSHIP PROGRAM

General Manager Pruim stated Director Hernandez requested the District consider funding a scholarship program targeting students headed to an institution of higher education in a field related to the work that is done at the District and suggested an amount of \$5,000 per scholarship.

The Committee was generally in favor of a scholarship program as a compliment to the proposed internship program. Staff will present additional information at the next Public Awareness/Personnel/Policy (P3) Committee meeting.

BILL PAYMENT PLANS/SHUTOFFS

General Manager Pruim stated the District curtailed shutoffs due to non-payment for water and wastewater accounts in February 2020 ahead of the state-wide Water Shutoff Emergency Executive Order which will expire on September 30, 2021.

Finance Manager Owen discussed efforts Customer Service staff have made to reach out to customers, including letters, phone calls and bill inserts, reminding them of the approaching deadline and asking them to contact the District to set up payment plans for past due balances. Staff will be seeking direction from the Board regarding potential service shutoffs after September 30.

General discussion took place regarding the need for flexibility, possibly extending the District's shutoff moratorium through the end of this year, offering payments plans, the number of customers affected, and how to handle customers who do not respond to the District regarding their past due accounts.

UTILITY BILL PAYMENT ARREARAGES FUNDING PROGRAM

Finance Manager Owen discussed the State Water Resources Control Board's (SWRCB) Water and Wastewater Arrearage Payment Program. Several staff participated in the SWRCB's webinar on August 19 regarding the program. The SWRCB has \$985 million to distribute through the program. Past due bills from March 2020 to June 2021 will be eligible for the program and must be for water service only not including late fees or wastewater charges. Agricultural and irrigation are not eligible. Past due wastewater bills will be considered if there are funds left over after the water bills have been processed.

Finance Manager Owen stated the District will be participating in the SWRCB's survey which is required to be eligible for the program. Staff is gathering information to be submitted prior to the September 10 survey deadline. The District will need to determine how funds received through the program will be distributed to the past due accounts. Staff will update the Board as new information is received.

TIMING OF COLLECTION OF CAPACITY FEES

District Engineer Gumpel stated this item was discussed at the August 18, 2021, Board meeting in conjunction with questions Director Boyd-Hodgson had regarding construction agreements, specifically the impact of collecting capacity fees immediately as compared to what is expected at project completion.

Director Boyd-Hodgson requested a discussion on a process where a percentage of capacity fees are paid up front, a percentage paid at some point along the construction process, and a percentage paid when the service is turned on. Director Sannella expressed his opinion that the current policy of collecting capacity fees at the completion of a project benefits the District in that developers who delay paying capacity fees at the front end must pay the current fees which may have increased since the start of their project. He requested staff provide analysis of this.

Finance Manager Owen presented an analysis of the timing of the collection of capacity fees and he concurred with Director Sannella. It does benefit the District to collect capacity fees at the completion of a project rather than inception in most scenarios. The District's capacity fees are reviewed every year using the Construction Inflation Index.

General discussion took place regarding the frequency of capacity fees studies, the capacity fee rate model, and the correlation between the Master Plan and capacity fees and capacity fee studies. It was noted that developers are allowed to pay capacity fees

up front if they wish, and that debt is issued to pay for projects and capacity fees pay for the debt service costs of projects.

Staff plans to provide a presentation regarding the Master Plan process to the Board in October. General Manager Pruim suggested the timing of the collection of capacity fees be brought before the Board shortly after they have heard the Master Plan presentation. The Committee concurred with this suggestion.

2015 DEBT REFINANCING

Finance Manager Owen stated the District's debt management policy requires staff to proactively communicate with the investment community, including municipal advisers, to ensure the District's debt is financed at the lowest possible rate at all times. He briefly reviewed the District's outstanding debt issuances, two of which are private placement loans currently at extremely low interest rates that would not benefit the District to refinance. The 2015 debt, currently at 5%, is a tax exempt debt issuance, which is bonds that are issued to the market and are callable typically after a ten-year period. Often the most opportune time to refinance tax exempt debt is when it is callable. The 2015 debt is not callable until 2025; however, staff is considering two options to refinance the debt: 1) Taxable Advance Refunding and 2) Tax Exempt Forward Direct Purchase. The first option would be to refund the debt now which would result in savings to the District, but it would change the debt status to taxable and would have negative arbitrage of approximately \$1.4 million. The second option would allow the District to maintain its tax exempt status for the bonds, lock in a rate at today's interest rates, sell the bonds to Morgan Stanley, and then in four years they would refinance it automatically. The District would continue to pay 5% during the next four years. This option would not extend the debt out further and has the potential to save the District approximately \$2.8 million over 20 years. Staff is reviewing the benefits to the District of the second option as well as the costs involved.

General discussion took place. The Committee recommended this item be brought to the Board for consideration.

COST OF SERVICE STUDY UPDATE

Public Information/Conservation Supervisor Robbins discussed proposed revisions to the District's current drought ordinance to bring the ordinance in line with the District's recently approved Urban Water Management Plan and the related Water Shortage Contingency Plan. Revisions to the ordinance include:

- The state suggests six levels of drought. The current ordinance has four.
- The revised ordinance is in line with what the San Diego County Water Authority (SDCWA) proposes for more consistency among the agencies throughout the region.
- Permanent water waste prohibitions will remain in place.
- Penalties/fines for violations were not revised.

Public Information/Conservation Supervisor Robbins stated the revised drought ordinance ties in with the Cost of Service Study (COSS) to include three different drought rates that would go into effect if the various levels of drought were invoked. He would like to present the revised drought ordinance to the P3 Committee in September and to the Board for approval in October. He feels there may be efforts in the region to invoke some of the voluntary drought measures and he would like to ensure the District is prepared if that happens.

General Manager Pruim noted the drought ordinance may be revised without changes to rates, but rates cannot be changed to include drought rates without the ordinance.

General discussion took place regarding the SDCWA's messaging of adequate water supplies in the region and the District's water conservation messaging.

Finance Manager Owen stated staff is working with Raftelis to develop drought rates to be included in the rate ordinance. He provided an update on the COSS. The rate model has been updated to include the most recent SDCWA rate increases and the budgeted revenue requirements. Additional items under consideration are pass-through of fixed charges and a potential irrigation rate. Raftelis is currently drafting a preliminary report to be used in conjunction with the rate model.

Finance Manager Owen presented a tentative schedule for the COSS as follows:

- 9/15/21 – Board Workshop
- 10/6/21 – Board Workshop
- 10/15/21 – Notice of Public Hearing Mailed
- 12/1/21 – Public Hearing
- 1/1/22 – New Rates in Effect

General discussion took place. The Committee recommended delaying the rate model implementation until February 1, 2022, so that the public hearing is not scheduled during the start of the holiday season and the process does not coincide with possible COVID relief funds coming in and the end of service shutoffs.

OTHER BUSINESS

None.

PUBLIC COMMENT

None.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at the hour of 5:10 p.m.