

AGENDA FOR A COMMITTEE MEETING OF THE BOARD OF DIRECTORS  
OF THE VALLECITOS WATER DISTRICT  
MONDAY, APRIL 12, 2010, AT 12:00 P.M.  
AT THE DISTRICT OFFICE  
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

CALL TO ORDER – PRESIDENT FERGUSON

PLEDGE OF ALLEGIANCE – PRESIDENT FERGUSON

ROLL CALL

ORAL COMMUNICATIONS

Persons wishing to address a matter not on the Agenda may be heard at this time; however, no action will be taken until the matter is placed on a future agenda in accordance with Board policy.

ITEMS FOR DISCUSSION

1. LAKE SAN MARCOS PARTICIPATION AGREEMENT
2. POSEIDON RESOURCES UPDATED WATER PURCHASE AGREEMENT
3. ELECTRONIC WARRANT SIGNING AND POSITIVE PAY POLICY
4. GOALS AND OBJECTIVES FOR FISCAL YEAR 2009/2010

\*\*\*\*\*END OF DISCUSSION ITEMS\*\*\*\*\*

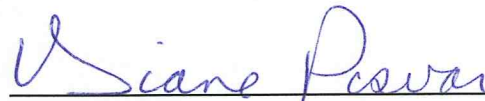
OTHER BUSINESS

\*\*\*\*\*END OF OTHER BUSINESS\*\*\*\*\*

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the Executive Secretary at 760.744.0460 ext. 264 at least 48 hours prior to the meeting.

AFFIDAVIT OF POSTING

I, Diane Posvar, Executive Secretary of the Vallecitos Water District, hereby certify that I caused the posting of this Agenda in the outside display case at the District office, 201 Vallecitos de Oro, San Marcos, California by 12:00 p.m., Thursday, April 8, 2010.

  
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Diane Posvar

MINUTES OF THE COMMITTEE MEETING OF THE BOARD OF DIRECTORS  
OF THE VALLECITOS WATER DISTRICT  
MONDAY, APRIL 12, 2010, AT 12:00 PM AT THE DISTRICT OFFICE,  
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

President Ferguson called the Committee meeting to order at the hour of 12:09 p.m.

Present: Director Ferguson  
Director Gentry  
Director Poltl  
Director Shell

Absent: Director Hannan

Staff Present: General Manager Lamb  
Legal Counsel Scott  
Legal Counsel Dodson  
Finance Manager Scaglione  
Administrative Services Manager Caudle  
District Engineer Gerdes  
Operations & Maintenance Manager Arrant  
Accounting Supervisor Fusco  
Public Information/Conservation Supervisor Urabe  
Executive Secretary Posvar

ORAL COMMUNICATIONS

None.

COMMITTEE ITEMS

LAKE SAN MARCOS PARTICIPATION AGREEMENT

General Manager Lamb stated that the District has been actively working for approximately one year with interested parties on developing an agreement that addresses the issues associated with the water quality in Lake San Marcos.

Legal Counsel Dodson presented the key points of the draft agreement. Initially, Regional Water Quality Control (RWQCB) staff had pushed on identifying and implementing all phases of work up front in an agreement. The District and the City of San Marcos took the lead in putting together the necessary agreement which would define the terms and conditions by which all parties would participate towards doing the work, identify the proposed phases and allow for detailed scopes of work to be developed as the project progresses. This was addressed to the RWQCB in February. Since then, there has been a change in philosophy at the Regional Water Quality Control Board. The new Administrative Officer, Dave Gibson, would like to address the work in logical sequences: diagnose the problems, find the sources of pollution, and then look at what can be feasibly accomplished.

At the last working group meeting some parties indicated they are only willing to do the diagnostic work at this point and they do not want the agreement to identify potential future steps or phases. They want to complete the work in phases and negotiate a separate agreement for each new phase. This would mean transactional costs at each phase which is not efficient. Staff and Counsel for the District and the City of San Marcos do not believe this is a good approach and are prepared to move forward with the agreement as drafted.

There appears to be a reasonable amount of money available at the State Water Resources Control Board through the Cleanup and Abatement Account. The proposed agreement includes the necessary elements in order to apply for this money. There appears to be approximately \$300,000 available for the diagnostic work. The City of San Marcos is taking the lead on this. In order to get the money, an agreement like the one currently developed is really needed. If the process is done in pieces like some parties want to do, it is unlikely that we will get the money. The other parties have been informed of this yet still only want to do the diagnostic phase as part of this agreement with no reference to future phases or activities. District staff and City of San Marcos staff have suggested that we will sign the proposed agreement and will sign another agreement between us (District and City of San Marcos) and the other parties indicating we will coordinate with them on doing the diagnostic work. A component of the proposed agreement that we do not want to lose is the opportunity to recover some of the costs for reasonable expenses we have incurred in leading the development of the agreement with the City of San Marcos. If we proceed in phases with the other parties, we will very likely lose this opportunity.

The benefit of proceeding with the proposed agreement is we minimize transaction costs at each phase, we've put together a contract we think is necessary in order to get the money from the State which will minimize our impact as well as everyone else's impact, and we want to be able to control the money once we have it.

There will be a pre-meeting of staff on April 14, there will be an all hands (homeowners and every other party who has an interest) working group on April 20, and there will be a meeting at the RWQCB on April 20. The working group (punitive parties to this agreement) will take place on April 19.

General discussion took place. Following general discussion, the Board Committee recommended that this item be presented to the Board at the April 21, 2010, regular Board meeting for consideration.

#### POSEIDON RESOURCES UPDATED WATER PURCHASE AGREEMENT

General Manager Lamb stated the District entered into a Purchase Agreement with Poseidon Resources on September 5, 2007, to purchase 7,500 Acre Feet (AF) of desalinated water. Prior to doing so, internal studies were conducted to determine what was best for the District. The 7,500 AF on a per day demand is about 7 1/2 – 8 million gallons per day (GPD). During the winter months when it's raining, our minimum

demand is about 9 million GPD; we have the demand to take the water.

When we entered into the agreement, the agreement stated that Poseidon had to tell us where, pressure, delivery point, and quality of the water to come to us. The initial estimated cost was \$861+ delivery cost an acre foot. The Agreement said they then had to go through a second revision where we had to accept the delivery pressure, the delivery point, the quality, as well as agreeing to pursue any subsidies that were available for the water. An Agreement to participate in the Metropolitan Water District of Southern California (MWD) Seawater Desalination Program was approved by the Board on August 19, 2009. This program allows for subsidies of up to \$250 per AF. Included in the approval of the subsidy agreement were conditions that Desalination Partners all agreed to including auditing procedures, intellectual property rights and indemnification provisions. The agreement was approved with the caveat that the money being paid to any member agencies of the San Diego County Water Authority (SDCWA), if the SDCWA is ever a party to a lawsuit, and if successful, causes MWD to change their rate structure in general, the subsidy ends. The Desalination Partners had to accept that verbiage or the subsidy could go away.

The District adopted Resolution No. 1335 on February 3, 2010, supporting an application to the SDCWA requesting the subsidy available through their Local Resources Program (LRP). The application has been submitted and is in review by SDCWA staff and action by the SDCWA Board of Directors is anticipated in May 2010. This program, if approved, will provide subsidies up to \$200 per AF.

The Amended and Restated Water Purchase Agreement is the culmination of over two years of negotiations through the Desalination Water Partners and Poseidon Resources and includes a variety of changes. Carlsbad has taken the lead in the recent negotiations to minimize the number of people negotiating, while keeping the partners informed. The majority of the changes were clarifications in wording and the addition of significant water quality and start up testing procedures, as well as changes noted in the approvals of the project. The major change is the addition of a provision stating that Poseidon may terminate the agreement in the event that the SDCWA Contribution Agreement or the MWD Contribution Agreement is reduced or eliminated.

Finance staff from all of the Desalination Partners (Buyers) are working through the water pricing provision of the contract. The Buyers will pay the lesser of SDCWA's price charged for water (Avoided Cost) or the "Base Price", plus one half the difference of Avoided Cost and Base Price when the Avoided Cost exceeds the Base Price. Agencies that require water to be wheeled through SDCWA's aqueduct will also still incur wheeling charges from SDCWA, but not from Poseidon since that would not be an avoided cost. Since the District will take water directly from the Desalination plant, the District will not pay wheeling charges to SDCWA, but the wheeling will be added to the District's avoided cost. Poseidon will be subject to franchise fees charged by the City of San Marcos for privately owned transmission in public right of ways. This cost will be passed on to the District as part of our rates. The base price is currently estimated to be \$1,670 vs. avoided costs of approximately \$972 AF from the SDCWA. Any

incentives received from MWD or SDCWA will be included in the avoided cost. In the first years of deliveries from Poseidon, when the base price exceeds the avoided cost, the difference between the base price and avoided cost will be accumulated in a tracking account. When the avoided cost exceeds the base price, the tracking account will be depleted for the difference. The District will pay the avoided costs to Poseidon until the tracking account is depleted to 0. After the tracking account is depleted to 0, the District will pay the base price plus one-half the difference of the avoided cost and the base price.

Finance Manager Scaglione presented a PowerPoint on the pricing provisions of the agreement detailing the base price breakdown, the avoided cost breakdown, trends in the tracking account, and the amount that the District will pay for desalinated water.

General discussion took place. Following general discussion, the Board Committee recommended this item be placed on the agenda for the first regular Board meeting in May.

#### ELECTRONIC WARRANT SIGNING AND POSITIVE PAY POLICY

General Manager Lamb stated that the current policy requires two live signatures by either an authorized management position or Board member on each warrant. The District issues an average of 240 warrants each month which is a very time consuming process for the two individuals. Staff conducted a survey of other public agencies to understand processes in place at other public agencies. Survey results revealed that 16 of 18 respondents utilize either full signature facsimile by electronic imaging or use a signature stamp. In some cases, limits on electronic signatures are set and a live signature is required on warrants above a specified dollar amount.

The District's FIS has the ability to implement a system to electronically print signatures on warrants during the warrant production process. The District also has the ability to prohibit an electronic signature on a warrant over a specified dollar amount and require live signatures.

A benefit to the District would be to implement a process called Positive Pay. Positive Pay is a system where the District electronically submits a file to the bank listing all of the warrants issued. The bank maintains this file and compares all warrants presented for payment against the list. In the event warrants being presented for payment do not match the list, the bank will notify the District prior to payment. The bank is not liable for any amount of loss resulting from fraudulent use of a warrant if Positive Pay is available and not utilized. The District has the ability to send positive Pay files to the bank with current FIS software.

Accounting Supervisor Fusco explained the process in which the signatures are printed on the check and the security measures in place for printing of checks. General discussion took place.

The Board Committee recommended this item be presented to the Board at a regular Board meeting for consideration.

GOALS AND OBJECTIVES FOR FISCAL YEAR 2009/2010

This item was continued to the May 10, 2010, Board Committee Meeting.

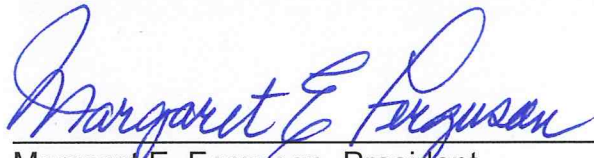
OTHER BUSINESS

None.

ADJOURNMENT

There being no further business to discuss, President Ferguson adjourned the Board Committee meeting at the hour of 2:20 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, March 3, 2010, at 4:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.



Margaret E. Ferguson, President  
Board of Directors  
Vallecitos Water District

ATTEST:



Dennis O. Lamb, Secretary  
Board of Directors  
Vallecitos Water District