

MINUTES OF A REGULAR MEETING OF THE BOARD OF DIRECTORS
OF THE VALLECITOS WATER DISTRICT
WEDNESDAY, SEPTEMBER 21, 2016, AT 5:00 PM AT THE DISTRICT OFFICE,
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

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

Director Elitharp led the pledge of allegiance.

Present: Director Elitharp
Director Evans
Director Hernandez
Director Martin
Director Sannella

Staff Present: Interim General Manager Scaglione
Legal Counsel Scott
Administrative Services Manager Emmanuel
District Engineer Gumpel
Finance Manager Fusco
Operations & Maintenance Manager Pedrazzi
Public Information/Conservation Supervisor Robbins
Financial Analyst Arthur
Mechanical/Electrical Supervisor Salazar
Senior Electrical Instrumentation Technician Dodman
Pump/Motor Technician II Hill
Mechanic Assistant Bougher
Executive Secretary Posvar
Administrative Secretary Johnson

ADOPT AGENDA FOR THE REGULAR MEETING OF SEPTEMBER 21, 2016

16-09-07 MOTION WAS MADE by Director Hernandez, seconded by Director Evans, and carried unanimously, to adopt the agenda for the Regular Board Meeting of September 21, 2016.

PRESENTATIONS

Mechanical/Electrical Department Presentation

Mechanic Assistant Bougher presented a portion of the presentation which included fleet inventory, preventative maintenance and repair, tires, roadside assistance, and new vehicle setup. Senior Electrical Instrumentation Technician Dodman presented a portion which included maintenance and upgrades to the District's Meadowlark Reclamation Facility (MRF), third generation of Weirs and controls, RAS telescoping valves, lift stations, Twin Oaks Facility, and SCADA. Pump/Motor Technician Hill presented a portion which included pump and motor tasks staff performs at MRF and Lake San Marco Wastewater Life Station.

General question and answer took place during the presentation.

The presentation was for information only.

PUBLIC COMMENT

Mike Hunsaker, member of the public, addressed the Board stating he applauds the Board's decision to hold the Newland Sierra agenda item until the next meeting. He further stated concerns on bonus units, density bonuses, Proposition 218 compliance, and the suspension of impact fees.

President Sannella clarified that capacity fees are charged by unit.

CONSENT CALENDAR

16-09-08 MOTION WAS MADE by Director Evans, seconded by Director Hernandez, and carried unanimously, to approve the Consent Calendar, moving Item 1.4 to the end of Action Items as requested by Director Martin.

1.1 Approval of Minutes

A. Regular Board Meeting – September 7, 2016

1.2 Warrant List through September 21, 2016 - \$3,558,602.23

1.3 Financial Reports

- A. Water Meter Count – August 31, 2016
- B. Water Production/Sales Report – 2016/2017
- C. Water Revenue and Expense Report – August 31, 2016
- D. Sewer Revenue and Expense Report – August 31, 2016
- E. Reserve Funds Activity – August 31, 2016
- F. Investment Report – August 31, 2016

1.4 Fall 2016 SPLASH! – Vallecitos Water District Quarterly Newsletter

1.5 Drought Update

ACTION ITEMS

WATER LINE REIMBURSEMENT FOR SAN ELIJO HILLS PLANNING AREA "O", UNITS 8 & 9 (SAN ELIJO HILLS DEVELOPMENT COMPANY, LLC)

District Engineer Gumpel stated the developer installed a 16-inch diameter ductile iron water main in lieu of the 10-inch diameter water main that was originally designed to handle the capacity for the residents of planning area "O". As specified in the Master Agreement with San Elijo Hills, the District agreed to reimburse the developer for costs attributed to the oversize portion of the pipeline's construction. The Master Plan required the oversizing of water facilities to provide adequate infrastructure within the Questhaven basin.

He further stated the project's original reimbursement cost of \$272,428 was approved prior to construction. Once construction was underway, appurtenances were added to the project such as gate valves, blow offs and air vacuum release valves, totaling \$23,300. The District's portion of the installed facilities for reimbursement is \$295,728.

Staff recommended the Board approve the 16-inch water line reimbursement to the San Elijo Hills Development Company, LLC in the amount of \$295,728.

General discussion took place.

16-09-09 MOTION WAS MADE by Director Martin, seconded by Director Hernandez, and carried unanimously, to approve the 16-inch water line reimbursement to the San Elijo Hills Development Company, LLC in the amount of \$295,728.

MODIFICATION OF UNIT WATER DEMANDS AND WASTEWATER UNIT GENERATION FACTORS (DUTY FACTORS) UTILIZED FOR ESTIMATING WATER DEMANDS AND WASTEWATER FLOWS

District Engineer Gumpel stated unit rates (duty factors) were last adopted by the Board on February 16, 2011 during the preparation of the 2008 Master Plan. These duty factors have recently been analyzed and revised as part of the draft 2014 Master Plan's preparation. The revised duty factors were discussed with the Board during Master Plan workshops on July 15, 2015 and January 27, 2016. The revised duty factors were also utilized in the 2015 Urban Water Management Plan that was adopted by the Board of Directors on June 15, 2016.

District Engineer Gumpel provided a presentation on the 2014 Master Plan water and sewer duty factors, which included the following:

- Background and Purpose
- Land Use Data
- Duty Factors
- Water Duty Factor Comparison with Past Master Plans
- Sewer Duty Factor Comparison with Past Master Plans
- Effect on Development
- Master Plan Schedule

General discussion took place regarding how variables such as the 2015 State mandated water restrictions, achievement of conservation targets, and data for new and aging developments affects duty factors for 2014.

Staff recommended the Board approve the new water demands and unit wastewater generation rates developed for the 2014 Water, Wastewater and Recycled Water Master Plan.

General discussion took place.

Andrew Yancey addressed the Board stating that he is an attorney representing the Golden Door Spa and Resort which is located in Twin Oaks Valley and is a customer of the District in Division 1. He stated the Golden Door opposes the Newland project and thanked the Board for delaying consideration of the water supply assessment verification.

He further stated concern about how the duty factors will be applied to the Newland project water supply assessment verification, the timing of the adoption of the Urban Water Management Plan and the Master Plan, basing the duty factors on SANDAG growth estimates, and adopting duty factors without a CEQA process.

He thanked the Board.

Legal Counsel Scott responded to Mr. Yancey's concerns stating that the District was mandated by law to adopt the Urban Water Management Plan when it did. He assured him that he will have an opportunity during the CEQA process to raise those issues.

District Engineer Gumpel explained that based on the County's land use plans, the Newland project is still under the estimate from a planning standpoint. The previous general plan for 100 homes and the rest with agriculture would potentially use more water than 2,100 homes without agriculture.

16-09-10 MOTION WAS MADE by Director Elitharp, seconded by Director Evans, and carried unanimously, to approve the new unit water demands and unit wastewater generation rates.

PUBLIC HEARING

PUBLIC HEARING TO CONSIDER WATER, WASTEWATER SERVICE RATE CHANGES, AND PUMP ZONE CHARGES

President Sannella opened the hearing as duly noted and posted. The hearing was opened at 6:22 p.m.

Finance Manager Fusco provided a presentation on proposed water and sewer rates and the change in rate structure as follows:

- Agenda for the Hearing
- Projected Single Family Bill
- 12 Units of Water on Single Family Rate (SFR) and VWD's Cost
- Recap of Budget and Rate Workshop Meetings
- Proposition 218 Notice of Public Hearing Mailing
- Cost Driver
- Cost Reduction Efforts

- District Billing Methodology Change
- Proposed Tiered Structure for All Customer Types
- Active Meters – June 2016
- Revenue Requirement
- Tier Ranges From/To
- Proposed Water Rates: Commodity
- Proposed Water Rates: Ready to Serve (RTS)
- Proposed Wastewater Rates
- Proposed Pump Zone Rates
- Water Bill Comparison – San Diego County
- Water Bill Comparison – Agencies Bordering VWD
- Alternatives and Impacts
- Debt Service Coverage Ratio (Impacts)
- Days in Cash (Impacts)
- Reserves Above/Below the Floor (Impacts)
- Standard & Poor VWD Rating – Surveillance Report - Outlook

General discussion as well as question and answer took place during the presentation.

Director Evans requested clarification as to when the last rate increase took place and what percentage the increase was. Staff responded that the rate increased 1.37% effective July of 2015.

Finance Manager Fusco stated the average single-family residential bill assumes a 5/8" meter using 12 units of water.

Director Martin stated that the proposed rates were approved for a 5% increase for two years at the July 20, 2016 Board meeting and not the additional year.

Interim General Manager Scaglione stated the draft Proposition 218 Notice of Public Hearing was brought back to the Board at the July 26 Special Board Meeting for further discussion. Motion passed at that meeting to approve the draft Proposition 218 Notice of Public Hearing as amended with word changes.

Finance Manager Fusco clarified for Director Martin that the draft Proposition 218 Notice of Public Hearing presented at the July 20 Board meeting included the year "2019" in the example chart which was the year that was removed.

Director Hernandez asked if the Board has the ability to modify the rates stated in the Proposition 218 Notice of Public Hearing, to which Legal Counsel Scott responded yes. The Proposition 218 Notice of Public Hearing indicates proposed rates; it is the Board's prerogative to change the rates from what was stated in the Notice.

Director Elitharp asked what percentage of the District's budget is related to wholesale water purchases. Finance Manager Fusco stated that just the water (not including sewer) accounts for approximately 60% of the District's budget.

Director Elitharp asked if there were no other changes year-to-year, we would need an approximate 15.6% increase just to account for the wholesale water if there had not been any cost reductions made and the same amount of water was used. That is roughly 60% of the 26% wholesale pass-through increase. Staff affirmed this was correct.

General discussion took place regarding alternatives and impacts in the presentation, to which Director Hernandez suggested the option of increasing rates one time this year, reviewing opportunities for overhead reduction with the new General Manager and reviewing rates again next year.

Interim General Manager Scaglione summarized comments contained in letters the District received protesting the proposed rate increase. The most common comments were that customers were asked to conserve water and now the District is raising rates; the District should cut costs before raising rates; such a high increase in a short period of time; large meters could see an increase much more than 50% depending on their water use; setting new meters; waiving fees; and raising user rates.

Mike Hunsaker, member of the public, addressed the Board stating his concern about density bonuses, how mobile home parks and multi-family customers are charged, and the electricity costs associated with desal. He thanked the Board.

Jim Camden, member of the public, addressed the Board stating he and his family recently moved to 1437 Horizon Lane for the quality of life and affordability. They are on a fixed income, but recognize that water comes at a cost. He further suggested that a representative sample of rate payers or customers be involved in looking at some of the budget, discretionary costs, desal, the cost of service study, and how all these things impact ratepayers. He thanked the Board.

Wanda Patterson, member of the public, addressed the Board stating she lives in an unincorporated area and doesn't believe 12 units of use stated in the public hearing notice as average is representative of the District. The flyer that was sent around portrays a family that only uses 12 units; this family does not live in the County. All of the lots out there are zoned one acre or larger and they just can't make it on 12 units. Stated the need to pay higher rates and that she is thankful for the desalination plant. She stated the concern about residents with 1" meters under the proposed structure increasing disproportionately, with her bill increasing 57%. She thanked the Board.

Bernard Hentges, member of the public, addressed the Board stating that they understand costs have gone up and rate increases are a necessity. He described their home, agricultural, needs conservation efforts, and the impact of the proposed rate structure and more use in the higher tiers. He thanked the Board.

Charles Duvel, member of the public, addressed the Board stating he has lived in San Marcos for 30 years. He retired from Encina Wastewater Authority after 35 years. He expressed concern over the 15% increase over three years. He described his

experience with the desal plant and expressed concern over the 28% of the District water from desal. He hopes the Board does a better job in the future.

Wendy Vokal, member of the public, addressed the Board stating she lives on Vineyard in a small home and thinks she is in Tier 1. She stated that she is from Chicago where sewer is charged per toilet, that this would be an idea for new homes, and the District could charge rates based on number of toilets in the home. She acknowledged that we are in a drought but that her homeowner's association says we are not in a drought. She indicated that the District needs to consider ways to lower water costs. She thanked the Board.

President Sannella clarified that the District is not paying the City of Carlsbad. The District is recycling its wastewater and selling it to Carlsbad and generating revenue for it. The District is using that revenue to offset all the other costs.

There being no other persons wishing to address the Board, President Sannella closed the hearing at 8:07 p.m.

General discussion took place during which various options for or against a rate increase were discussed as well as changing the rate structure.

16-09-11 MOTION WAS MADE by Director Hernandez, seconded by Director Evans, and carried 3 – 2 with Directors Martin and Sannella voting no, to pass through half of the wholesale increase effective January 1, 2017.

ACTION ITEMS (CONTINUED)

REGIONAL STORM WATER RECAPTURE EFFORTS

Interim General Manager Scaglione provided an update on the efforts of the San Diego County Water Authority, the County of San Diego, San Diego Integrated Regional Water Management (IRWM) and local water agencies that are collectively pursuing grant funding for a storm water capture and use feasibility study (Study), compliant with the Water Board's Storm Water Resources Plan Guidelines. The purpose of the Study is to provide a county-wide analysis to determine the feasibility of planning, constructing, operating and managing facilities that capture and use storm water beneficially. The Study will benefit the region by identifying new water supply opportunities, providing new pathways to implement storm water management projects, and the potential for project funding.

He further stated that an IRWM grant application, which will include a request for funds to partially support the storm water capture feasibility study with the IRWM Plan update, will be submitted to the State of California Department of Water Resources by the San Diego County Water Authority on September 23, 2016.

General discussion took place.

This item was presented for information only.

AVOCADO GROVE PROPERTY

Interim General Manager Scaglione provided a brief background on the District-owned avocado grove. Due to continuing losses on the grove and no apparent increase in market value since the real estate crash, the Board of Directors authorized staff to sell the avocado grove at the November 5, 2014 Board meeting. The property has been listed since June 2015 with offers falling in and out of escrow; however, there is an offer currently pending. At the September 7 Board meeting, the Board requested annual maintenance costs of the grove.

General discussion took place regarding options should the pending offer fall through.

16-09-12 MOTION WAS MADE by Director Martin, seconded by Director Hernandez, and carried unanimously, to keep the avocado grove on the market, stop irrigating the trees, and cancel the grove management service.

FALL 2016 SPLASH! – VALLECITOS WATER DISTRICT QUARTERLY NEWSLETTER

Director Martin suggested reducing the distribution of the SPLASH! Quarterly Newsletter to two times per year in order to save costs. He requested the Fall 2016 edition be reformatted to replace one of the existing articles with an article about the rate action that took place tonight.

General discussion took place regarding notifying customers of the rate action via Facebook and Twitter in addition to an article in the Fall SPLASH! Newsletter. The consensus of the Board was to review the article to be included in the Fall SPLASH! Newsletter at the Special Board meeting on September 22.

REPORTS

INTERIM GENERAL MANAGER

None.

DISTRICT LEGAL COUNSEL

None.

SAN DIEGO COUNTY WATER AUTHORITY

None.

ENCINA WASTEWATER AUTHORITY

Director Hernandez reported on his attendance to the Capital Improvement Committee meeting this morning at which discussion took place regarding a Request for Proposal for climate control inside EWA facilities.

DIRECTORS REPORTS ON TRAVEL/CONFERENCES/SEMINARS ATTENDED

None.

OTHER BUSINESS

None.

DIRECTORS COMMENTS/FUTURE AGENDA ITEMS

Director Martin asked when the Board would receive information regarding the District property on the hill behind the District buildings.

Interim General Manager Scaglione stated an update would be provided at the October 5 Regular Board meeting.

President Sannella requested a closed session item regarding an employee review be placed on a future agenda.

CLOSED SESSION

PERSONNEL MATTERS PURSUANT TO GOVERNMENT CODE SECTION 54957(b)
– TO CONSIDER APPOINTMENT OR EMPLOYMENT OF A PUBLIC EMPLOYEE

The closed session was not needed and did not take place.

ADJOURNMENT

There being no further business to discuss, President Sannella adjourned the Regular Meeting of the Board of Directors at the hour of 8:59 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, October 5, 2016, at 5:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.

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

ATTEST:

Tom Scaglione, Secretary
Board of Directors
Vallecitos Water District