

MINUTES OF A REGULAR MEETING OF THE BOARD OF DIRECTORS
OF THE VALLECITOS WATER DISTRICT
WEDNESDAY, JANUARY 6, 2016, AT 4:00 PM AT THE DISTRICT OFFICE,
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

Vice President Elitharp called the Regular meeting to order at the hour of 4:00 p.m.

Director Martin led the pledge of allegiance.

Present: Director Elitharp
Director Hernandez
Director Martin

Absent: Director Evans
Director Sannella

Staff Present: General Manager Lamb
Assistant General Manager Scaglione
Legal Counsel Scott
Administrative Services Manager Emmanuel
District Engineer Gumpel
Finance Manager Fusco
Operations & Maintenance Manager Pedrazzi
Capital Facilities Senior Engineer Hubbard
Development Services Senior Engineer Scholl
Accounting Supervisor Owen
Public Information/Conservation Supervisor Robbins
Risk Management Supervisor Janus
Financial Analyst Arthur
Safety Technician Longville
Executive Secretary Posvar
Administrative Secretary Johnson

Others Present: Brian Jewett, Black & Veatch

ADOPT AGENDA FOR THE REGULAR MEETING OF JANUARY 6, 2016

Vice President Elitharp requested item 2.4 be moved before item 2.3.

16-01-01 MOTION WAS MADE by Director Martin, seconded by Director Hernandez, and carried unanimously, with Directors Evans and Sannella absent, to adopt the agenda for the Regular Board Meeting of January 6, 2016 as amended.

PRESENTATION

General Manager Lamb stated that the District, as a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), is self-funded. As such, the District's insurance premiums are based upon its performance on an annual basis pertaining to safety and risk management. He recognized Risk Management Supervisor Jerome Janus and Safety Technician Anette Longville for their efforts. He presented the ACWA/JPIA "President's Special Recognition Awards" that were bestowed on the District recognizing the District's low ratio of reserves to premiums paid for their property and liability programs.

ORAL COMMUNICATIONS

Mike Hunsaker, member of the public, addressed the Board regarding the possibility that open space can be converted to agricultural use and we should consider this when we develop how much water is allowed for this type of land use in the Master Plan. He thanked the Board.

CONSENT CALENDAR

16-01-02 MOTION WAS MADE by Director Martin, seconded by Director Hernandez, and carried unanimously, with Directors Evans and Sannella absent, to approve the Consent Calendar as presented.

1.1 Approval of Minutes

- A. Regular Board Meeting – December 8, 2015
- B. Special Board Meeting – December 16, 2015

1.2 Warrant List through January 6, 2016 - \$3,738,947.05

1.3 Customer Service Calls Monthly Report

1.4 Final Acceptance of Water and Sewer Improvements for San Elijo Hills, Phase 5, P.A. "O", Units 8 & 9 (San Elijo Hills Development Company, LLC)

1.5 Winter 2016 SPLASH! – Vallecitos Water District Quarterly Newsletter

ACTION ITEMS

DROUGHT UPDATE

Public Information/Conservation Supervisor Robbins stated that in a recent survey of 14 SDCWA member agencies, only 1 achieved their State mandated water conservation target in November. Many agencies reported numbers well below their target. Vallecitos achieved a 23% reduction, just missing the 24% conservation goal.

He provided the following update, noting that the data is for the month of November:

- The District's November 2015 water production decreased 21.96% from November 2014 and 22.83% from November 2013.
- In November 2015, customers used 63.4 gallons per day compared to November 2014, when customers used 78 gallons per day.
- The number of drought calls is steadily declining.
- The District is shifting its communication to focus on El Niño preparedness, rain water harvesting, the snowpack, and the continued drought.
- Fiscal year-to-date water sales through November are \$1.5 million, or 14.4%, less than budgeted. The impact is mitigated by the \$0.8 million favorable budget variance in water costs, and other favorable operating variances.

This item was presented for information only.

Mike Hunsaker, member of the public, addressed the Board stating that there is a proposal by water agencies in Sacramento in which final comments have been made to change the way demand is calculated based on zoning. The argument is that we have super-efficient new construction. As a consequence, they are going to regulate water demand per dwelling unit for buildings and apartments that are constructed after mid-2013, to 165 gallons per day. From what he has heard, there are no restrictions or any guarantee that these new buildings will in fact be down at that level. He thanked the Board.

ACCEPTANCE OF SAN ELIJO HILLS PUMP STATION PROJECT

Capital Facilities Senior Engineer Hubbard stated that the District and Olivenhain Municipal Water District (OMWD) entered into an agreement for the sale of water treatment services from OMWD to the District. This project involved the construction of a pump station to transport 2,750 acre feet annually of potable treated water from OMWD's water treatment plant at a rate of approximately 3,000 gallons per minute to the District's 877 pressure zone. A building was constructed to house the pumps, header pipeline and electrical equipment; piping was laid out to the street for connections; site improvements were made. He further stated that all work has been completed with a total of seven change orders resulting in the project coming in over budget by \$104,600.

Staff recommended the Board increase the budget by \$104,600, accept the project, file a Notice of Completion and authorize the release of retention funds to the contractor following the 60 day notice period, provided no claims are filed.

General discussion took place regarding the change orders. Capital Facilities Senior Engineer Hubbard stated that additive change orders included cost to increase the motor size of both pumps to increase pump capacity to maximize SDG&E off and semi-peak pump times. There was a deductive change order for reimbursement of District direct costs related to delays in pump testing start-up. Two change orders for extension of time of 147 calendar days at no cost to the District were also issued due to delayed delivery of the pumps and motors and for delays due to acquiring permits for SDG&E to

energize the station. Overall, 186 calendar days were added to the contract, increasing staff and inspection time.

16-01-03 MOTION WAS MADE by Director Martin, seconded by Director Hernandez, and carried unanimously, with Directors Evans and Sannella absent, to increase the budget by \$104,600, accept the project, authorize staff to file a Notice of Completion and release retention funds to the contractor following the 60 day notice period, provided no claims are filed.

APPROVAL OF WATER SUPPLY ASSESSMENT AND VERIFICATION REPORT FOR THE NEWLAND SIERRA SPECIFIC PLAN (COUNTY OF SAN DIEGO)

General Manager Lamb stated that in response to this item, correspondence was received from Latham & Watkins, LLP dated January 5, 2016, The Endangered Habitats League dated January 5, 2016, as well as an email from Ms. Karen Binns dated January 6, 2016. This correspondence and a copy of the Escondido General Plan, including a LAFCO map, Figure 11-1, and Page 11-3 of the General Plan will be put into the record for consideration towards the project.

Development Services Senior Engineer Scholl provided a presentation on the Newland Sierra Water Supply Assessment & Verification (WSA&V) report which is a requirement of the environmental review process and will be included in the project's draft and final Environmental Impact Reports. He discussed the following:

- Newland Sierra Background
- WSA&V Report Purpose
- WSA&V Report Findings
- WSA&V Report Conclusions
- Recommendation

Following the presentation, he stated staff's recommendation is to approve the Water Supply Assessment and Verification Report for the Newland Sierra Specific Plan.

General Manager Lamb stated that the current water restrictions were established through Governor Brown's April 1, 2015 Executive Order at the State level. This is the first time the State has ever stepped in and mandated limitations on water service to local jurisdictions. On May 20, 2015, the Board adopted a new ordinance that adopted the Governor's mandate so that the District would have the enforcement authority for monitoring and limiting watering days if necessary. The existing ordinance the District has on record through the County is based upon the San Diego County Water Authority's (SDCWA) adoption of limitations, which would cause enforcement of other items such as availability letters, meter moratoriums, etc. Currently, the SDCWA is at 99% of normal water supply.

General discussion took place.

Eric Armstrong, representing Fuscoe Engineering, addressed the Board stating that they are the engineers for the Newland Sierra project. Fuscoe Engineering, together with Dexter Wilson Engineering, have reviewed the WSA&V report and concurs with the findings. They have verified that the land use numbers were correct and consistent with the current project description. They are about to resubmit the project for further review and expect their draft EIR to go out for review in late May or early June. They are still in the submittal process. The project description that will be in the EIR is consistent with the WSA&V report. And he respectfully asked that the Board support staff's recommendation and approve the WSA&V report so that it can be forwarded to the County.

Andrew Yancey, of Latham & Watkins, LLP, addressed the Board stating that he represents The Golden Door, a world-class spa and resort off of Deer Springs Road in North County and also a Vallecitos customer in District 1. The Golden Door opposes the Newland attempt to revive the Merriam Mountains project. They have reviewed the WSA&V report and have some concerns about it. They have submitted a letter which discusses these concerns in more detail.

He stated that shortcomings in the WSA&V report seem to fall short of the legal requirements, so they respectfully request the Board reject the WSA&V or in the alternative, delay consideration until some of these issues have been remedied. The first concern they have regards the lack of firm assurances in the water supply. It looks like it uses paper water instead of firm assurances. The document looks like it only provides conditional assurances that water supply will be available if deliveries are provided as projected from Metropolitan and the County Water Authority. The water supply assessment doesn't provide substantial evidence of contracts, capital outlay programs or permits for sufficient water supply. In fact, the document indicates that water deliveries in recent years have fallen short of projections, yet it doesn't amend the future projections to account for these shortfalls, which causes concern that supply may not be there.

In addition, the WSA&V doesn't provide a project-specific analysis of the Newland project. Instead, it relies on the 2008 Master Plan. At issue is that this project was not included in the 2008 Master Plan or the Urban Water Management Plan, or the Urban Water Management Plan for the Water Authority. What it appears to do is say that because there was sufficient demand built into the Master Plan, that because the Newland project falls below that, it doesn't need to do a sufficient analysis. That doesn't comply strictly with the letter of the law as they see it because the Newland project is not in the underlying plans. In addition, there is an analysis that was shown on the PowerPoint presentation about how the Newland project comes in under the water supply demand in the Master Plan. This is a proposition that defies common sense because Newland is proposing more than 2,100 homes and other amenities, whereas the land use designations considered by the Master Plan only allocated a few hundred homes. He is wondering how a much more dense development is going to use less water. He also wanted to point out, and this is the reason why he submitted the land use maps of the City of Escondido, that a portion of this project in the southeast corner

of the project is within the sphere of influence for the City of Escondido which is on a LAFCO map that he submitted as well as their land use designations from the City of Escondido's land use map. He is not aware that there has been any consultation with the City of Escondido on that, but he is certainly open to hearing clarification on that and it is a concern he wanted to raise.

He further stated that there are also a couple of prudent policy issues that they feel are missing from this WSA&V. The first one is about basic fairness. As was noted before, there are drought restrictions in place right now. We are in a drought level 2. District customers have gone to extraordinary measures to conserve water. In fact, there's a news release on the District's website that says customers have conserved 31% whereas only 24% is required. That's great. The problem is as an existing customer, we are looking at an approval of new water supply while we are still under restrictions. All of the existing customers are under restrictions while a developer coming in is reaping the benefits of it. The other issue is that because this is such a drastic increase in land use, about 20 times what the current County General Plan allows, we think there should be water offsets required for this degree of density increase. He thanked the Board stating he appreciates the Board's time and attention to their concerns.

Mike Hunsaker, member of the public, addressed the Board stating that among other things, he is the spokesperson for the Twin Oak Valley Property Owners Association. They haven't had a chance to do a complete analysis of this report. Some preliminary findings are highly negative. As he mentioned before, the State may interfere with the District's Master Water Plan and arbitrarily decide that everything is 165 gallons per day per dwelling. If that's the case, this report will need to be entirely redone. If it comes out with a lot lower figures, it will become one legal nightmare. As far as the analysis report, he has only gotten part way through it, so you will hear from him again and again regarding limitations and questions.

He further stated that marijuana has been discussed. You have an ordinance saying that any fire protection zone can be approved. There is no limitation on water use. You have fuel modification areas which use water and one of them is, as he understands it and requested clarification from the developer on this, is this fuel modification area which is irrigated that was originally intended for grape production. If it changes, or if you put a high water use product in there, who's going to pay for the water? If you have marijuana in there and go from 1,700 gallons per day to 20,000, and you've got potentially 81 acres of land, that's about one million gallons per day. There is the need to have some sort of reasonable restriction on these areas. He suggests that it is inappropriate to allow agriculture to be used as fire protection zones. If there is going to be such community gardens and fire protection zones, who is paying for the water and who's going to get the income from the community gardens? Community gardens are not restricted from what he has read in the literature that comes from Newland from time to time. It is first come first served for residents and then after that, commercial people come in. Commercial people making a lot of money will crowd out community members very quickly, so that needs to have reasonable restrictions on it. You are allowed and have used design restrictions before.

Mr. Hunsaker stated he is very concerned about some of the promises made about recycled water and possibly taking wastewater and using it for irrigation. All of the new, more efficient appliances use far less water, but the concentration of solids does not materially change. If you do not have a lot of natural rainwater to flush these out, it's going to be an ecological problem. This is something that has to be handled very carefully. This needs to be defined hard and fast rules. The last issue is who is going to pay for the waste disposal? Right now, there has been a suspension of wastewater fees. This requires a substantial amount of investment. Are the impact fees going to handle all of that or will that be taken up largely by the other rate payers? The 2008 Water Master Plan indicated that would be illegal. The question will come up very soon as to whether or not that is really legal to pass on those rates and costs to other rate payers. There are many environmental concerns that he is not directly representing now because he is trying to restrict himself to the water elements that are being covered. Even the recycled water issue does become part of that environmental program. If it is supposed to be used in any way as an offset, it's going to have to be in compliance with the evolving storm water regulations that are coming out and are going to be monstrously expensive. He thanked the Board.

General discussion took place.

During general discussion, Director Hernandez stated he can assure the District's rate payers that no one is going to be paying for anything beyond what they use. None of the rate payers are going to have to worry about paying for anything regarding the Newland project.

Director Martin stated that development pays their own way. If this project is approved, they will be paying for all pipes, facilities, pump stations, and anything and everything that is necessary to provide them with water, not the rate payers.

General Manager Lamb stated that the District has the responsibility, as mandated by law, to determine if there are sufficient water supplies available to serve the project based upon substantial evidence the District has. The evidence exists, which is the basis for the recommendation before the Board. He further stated that the District is not a land planning agency; it is a utility that provides service based upon what the land agencies give the District. The District depends on imported water from the Metropolitan Water District / San Diego County Water Authority and despite the current drought conditions, there is no indication from either agency that there is not sufficient water supplies into the future. The Newland Sierra projected water demands are less than what was estimated in the 2008 Master Plan. The District's and the San Diego County Water Authority's most current Urban Water Management Plan indicates that there are no anticipated shortages over a 20 year history.

He further stated that based upon what the District has done in the past, past water supply assessments, and what is on record, staff recommended the Board consider and approve the WSA&V report, which would then be forwarded to the County of San Diego along with comments received into the records.

- 16-01-04 MOTION WAS MADE by Director Martin, seconded by Director Hernandez, and carried unanimously, with Directors Evans and Sannella absent, to approve the Water Supply Assessment and Verification Report for Newland Sierra Specific Plan.

PROPOSED WATER RATE STRUCTURES AND SCENARIOS BASED ON COST OF SERVICE STUDY

General Manager Lamb stated the Board was briefed several months ago that the District's current rate structure needs modification due to the decision of the San Juan Capistrano lawsuit. The current rate structure is based upon meter size. The purpose of today's discussion is the first step in a long process to revise the rate structure.

Legal Counsel Scott stated that the District needs to make the rate structure fair and based upon the cost of service for all customers.

General discussion took place.

Finance Manager Fusco provided a presentation on the Cost of Service Study including the following:

- Objective of Today's Meeting
- Services Provided by Black & Veatch
- Project Background
- What is a Cost of Service Study?
- Proposition 218
- Percent of Customers by Class (Type)
- Percent of Customers by Meter Size
- Scenario 1 – Existing Structure
- Scenario 2 – Uniform Commodity Rate
- Scenario 3 – Mix of Tiered Single Family & Uniform Commodity Rate by Class
- Scenario 4 – Mix of Tiered Single Family & Irrigation & Uniform Commodity Rate by Class
- Scenario 5 – Tiered Structure for All Customer Classes
- Scenario Summary

General discussion took place. During general discussion, Finance Manager Fusco stated that the numbers presented in the presentation are very preliminary.

Financial Analyst Arthur discussed the following rates and impacts on customer bills:

- Scenario Rate Summary – Years 1 & 3
- Scenario 2 – Rates & Impacts
- Scenario 3 – Rates & Impacts
- Scenario 4 – Rates & Impacts
- Scenario 5 – Rates & Impacts

- Next Steps

General discussion took place.

During general discussion, the question was raised why there is not a third tier for all non-residential customers in Scenario 5. Brian Jewett of Black & Veatch responded that it is very unusual to have any tiers on non-residential other than irrigation. One reason for this is that non-residential users have less discretionary use than single family and irrigation for outdoor use. Commercial users normally have a separate irrigation unit which would then go into the irrigation class. Another issue is that commercial industrial users typically have a very wide range of usage patterns. He is comfortable recommending going to a two-tiered system for non-residential to incentivize leaks being repaired and to prevent waste; however, it would be very difficult to develop a nexus for a third tier in this climate.

Finance Manager Fusco stated the next step is for the Board to select which scenarios they would like to explore in further detail at a Board workshop meeting. It is anticipated that there will be several workshops on scenarios as well as the required public hearings required by Proposition 218 over the next few months.

Staff recommended the Board set a date for a rate workshop inclusive of ready-to-serve, pump zone and sewer rates.

The consensus of the Board was to explore scenarios 3, 4, and 5 at a workshop meeting to be scheduled as soon as possible.

Mike Hunsaker, member of the public, addressed the Board stating that he wanted to clarify one thing. Regarding the facilities, costs, rates, and ready-to-serve charges, Assistant General Manager Scaglione has provided him with information on how this was calculated in the past. He wants to preserve that type of rate structure which is much fairer than what is around. His political interests go beyond VWD.

He stated that as far as the ready-to-serve fees, he is not too happy with the idea of maintaining them at a constant rate. We have a water plan which very carefully indicates if you use water, 80% of it on average ends up in the waste system. That provides a means of justifying a ready-to-serve charge which is somewhat related to use. Some are more waste water intensive than others and there will have to be some sort of tiering based on waste water production rates. A laundromat, for example, would probably be at 100%. A single family dwelling uses it for irrigation purposes at virtually nothing. He thanked the Board.

APPROVAL OF AS-NEEDED ENGINEERING SERVICES AGREEMENTS FOR FISCAL YEARS 2015/16 AND 2016/17

District Engineer Gumpel stated the District routinely requires minor engineering and design services for its capital projects and other unscheduled small projects. The cost of

these services generally do not justify going through the formal engineering proposal process. All as-needed engineering services agreements will be reviewed and renewed on a bi-annual basis.

Over the past few years, staff has negotiated reduced rates, on an annual basis, with selected engineering/design/specialty firms which have submitted resumes, provided statements of qualifications and/or proposals, and have successfully completed projects and provided services to the District. Staff and Counsel have reviewed the engineering services agreements and find them consistent with similar, past agreements.

Staff recommended the Board approve as-needed engineering services agreements for the selected firms, subject to provisions of the contract.

General discussion took place.

Vice President Elitharp stated for the record that he is a part-time employee of Kennedy/Jenks Consultants, one of the selected firms, and he is voting on the standard form of the contract, not an award to a specific engineering firm.

Counsel Scott affirmed Vice President Elitharp's participation in the voting on this item was appropriate.

16-01-05 MOTION WAS MADE by Director Martin, seconded by Director Hernandez, and carried unanimously, with Directors Evans and Sannella absent, to approve the as-needed engineering services agreements for the selected firms, subject to provisions of the contract.

REPORTS

GENERAL MANAGER

General Manager Lamb stated, as a reminder, that the Regular Board meeting of January 20, 2016 was rescheduled to January 18, 2016.

DISTRICT LEGAL COUNSEL

None.

SAN DIEGO COUNTY WATER AUTHORITY

None.

ENCINA WASTEWATER AUTHORITY

Director Hernandez stated that the Capital and Improvement Committee did not schedule a meeting for this month.

Director Elitharp stated that the Policy and Finance Committee did not schedule a meeting for this month.

DIRECTORS REPORTS ON TRAVEL/CONFERENCES/SEMINARS ATTENDED

None.

OTHER BUSINESS

Director Martin inquired if the Board and staff are on track for 2014 Water Master Plan. General Manager Lamb responded yes, and that at the Board workshop meeting scheduled for January 27, accomplishments to date will be discussed along with the completed Capital Improvement Plan and the next step which is the start of the Urban Water Management Plan and EIR.

Director Martin stated that he has been reappointed to the ACWA Membership Committee and the ACWA Energy Committee.

DIRECTORS COMMENTS/FUTURE AGENDA ITEMS

Director Hernandez asked when the annexation policy was going to be discussed. General Manager Lamb stated that it will be discussed at the next Regular Board meeting.

Director Martin asked if there was any follow up to the recent sewer spill.

General Manager Lamb stated that the District was cleared by the Department of Health Services and the State Water Resources Control Board. A hydraulics and design study is being conducted now to determine the exact problem.

CLOSED SESSION

CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.95
LIABILITY CLAIM

Claimant: Mercury Insurance Group

16-01-06 MOTION WAS MADE by Director Hernandez, seconded by Director Martin, and carried unanimously, with Directors Evans and Sannella absent, to move into Closed Session pursuant to Government Code 54956.95.

REPORT AFTER CLOSED SESSION

The Board reconvened to Open Session at the hour of 6:14 p.m. The Board, in Closed Session, directed staff to reject the claim.

ADJOURNMENT

There being no further business to discuss, Vice President Elitharp adjourned the Regular Meeting of the Board of Directors at the hour of 6:15 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Monday, January 18, 2016, at 4:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.

Craig Elitharp, Vice President
Board of Directors
Vallecitos Water District

ATTEST:

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