

MINUTES OF A WORKSHOP MEETING OF THE BOARD OF DIRECTORS
OF THE VALLECITOS WATER DISTRICT
THURSDAY, APRIL 20, 2017, AT 5:00 PM AT THE DISTRICT OFFICE,
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

President Elitharp called the Workshop meeting to order at the hour of 5:00 p.m.

Director Hernandez led the pledge of allegiance.

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

Staff Present: General Manager Pruim
Assistant General Manager Scaglione
Legal Counsel Scott
Accounting Supervisor Owen
Financial Analyst Arthur
Executive Secretary Posvar

ADOPT AGENDA FOR THE WORKSHOP MEETING OF APRIL 20, 2017

17-04-10 MOTION WAS MADE by Director Hernandez, seconded by Director Martin, and carried unanimously to adopt the agenda for the Board Workshop Meeting of April 20, 2017.

DISCUSSION ITEM

PUMP ZONE CHARGES REVIEW

General Manager Pruim stated the purpose of the meeting is to determine how to capture the costs of the pump zone system. He explained what a pump zone system is; there are ten pump zones in the District's service boundaries, however, one of the zones has no customers in it. Customers in the pump zone areas are assessed a pump zone charge. Typical costs associated with pump zones include but are not limited to pumps, motors, piping, storage tanks, reservoirs, personnel who operate the pump zone equipment, equipment replacement, required electricity to pump water to the higher elevations. Staff is looking for the following direction: 1) the percentage of pump zone costs to capture through pump zone charges; 2) how to spread those costs across district customers, and 3) when the charges should become effective and will it be all in one lump sum or in a series of charges.

Some of the factors to consider are: 1) customers who receive the benefits of the service should be the customers who pay for that service; 2) the understanding that

there is a general benefit to all customers of fire protection; 3) takes more electricity to pump water to higher elevations; and, 4) there are fixed costs in system inefficiencies that vary amongst the pump zones. The District is looking to capture only the electricity costs. Currently, the District is not capturing all the electrical costs - only collecting approximately 40% of the electrical costs. Sixty percent of those costs are being spread amongst customers who are not in pump zones. The District is not looking to recapture the non-electrical costs. Approximately \$125,000 in non-electrical costs are being spent on pump zone facilities.

General Manager Pruim stated that in order to move forward to establish rates for the next year, staff needed to make estimations on what the electricity costs would be. The estimate came to slightly over \$400,000 that would be required for the upcoming year. Pump operations are primarily at off-peak power rates in order to minimize costs to customers and the District. It is estimated that a little over 900,000 units of water will be pumped to pump zones in the next year which equates to 682 million gallons of water.

General Manager Pruim cited recent actions by the Board - the January 2017 approach as well as a new proposed approach. He discussed cost recovery options (Options A & Options B), charge allocation and longer term adjustments. Staff's recommendation was Option B which is to 1) collect 95% of the pump zone electrical costs through pump zone charges; 2) allocate the costs to the pump zone customers based on the weighted lift volume approach, which factors in elevation; 3) implement one-half of the change effective May 1, 2017, or another date selected by the Board, and the remaining half effective on July 1, 2018. He further discussed the financial impact of the recommended option.

General question and answer took place.

Ten members of the public addressed the Board expressing concerns regarding altitude factors and extra costs for pumping; is VWD a party to a class action lawsuit against SDG&E for overcharging – will VWD customers derive any benefit from that through lowering their rates should the suit be won?; pump zones are not a benefit of service; staff was going to find out what it would cost if the costs were shared with all District customers; customers at lower elevations should not be charged the pump zone rate; pump zone customers are being singled out; pump zone costs should be spread over all customers; analyze pressure levels; Prop. 218 requirements; other agencies don't charge pump zone rates; pumping charges are part of running the business; and, are other operations/charges singled out.

Staff responded to questions and concerns.

17-04-11 MOTION WAS MADE by Director Hernandez, seconded by Director Martin, and carried unanimously, to close the public comment period.

Director Sannella asked General Manager Pruim to explain why other agencies do not charge pump zone fees.

General Manager Pruim stated there are numerous examples of water districts that have elevation issues. Some choose to implement pump zone charges and some do not. A previous Vallecitos Board established the pump zone charges approximately 30 years ago.

Legal Counsel Scott stated that the Board is actually speaking about the recovery of electrical charges and who should pay for those. The historical philosophy has been that customers who receive the benefits of a service pay for that service. The charges being discussed now are the recovery of electrical costs.

General discussion followed as to if it is possible to have a different structure for high water users (farmers) where the increase is not so steep and if all agricultural customers have the agricultural rate for water, to which staff responded yes.

Director Martin explained the reason why 38 years ago the Board established the pump zones/rates and that new development would have to pay for the pump zone charges.

Director Sannella suggested the Board seriously consider phasing in the new rates over at least 3 or 4 years.

Director Martin expressed concern about spreading the increase out too far that the rates get miscalculated again and are not able to make up for it. He thinks two years should be the route to go and to revisit this every two years along with the 218 process. He would also recommend to the Board that all increases be done at one time.

Director Hernandez stated he would like to know how many other agencies in San Diego County have elevation differentials and would like to know whether or not they are charging pump zone fees. And if not, what is their justification and concerns related to Prop. 218. Director Hernandez further asked if staff has looked at or if there is a way to look at the issue of customers who are in the pump zone boundary only a little.

General Manager Pruim responded stating that when the hilltop developments were developed, they designed a plumbing system – pipelines, pumps, motors, and storage tanks. All the water is taken to the storage tank and it then flows downhill to the residents. For every residence, regardless of where they are at in the pump zone, that water had to be conveyed to the tank.

Director Hernandez moved to establish the pump zones over a three-year period beginning in July of 2017.

General Manager Pruim clarified that it would take three years to accomplish the four steps. The other option is three steps over two years.

Director Hernandez revised his motion to select an alternative option which would be a three-step process in which the last increase would take place in July 2019. Director Martin asked Director Hernandez if he would be willing to add that a review will be conducted every year. Director Hernandez agreed.

General Manager Pruim suggested that staff return to the Board on an annual basis to report to the Board on how the District is doing on pump zone charges.

17-04-12 MOTION WAS MADE by Director Hernandez, seconded by Director Martin, and carried unanimously, to implement a three-step process with a 95% recovery and annual review, with the last increase to take place July 1, 2019.

General Manager Pruim stated that in addition to the pump zone rates, staff will be making adjustments to the commodity portion, the ready-to-serve charge as well as sewer charges.

Assistant General Manager Scaglione reviewed the proposed budget schedule and potential effective dates for rate increases.

ADJOURNMENT

There being no further business to discuss, President Elitharp adjourned the Board Workshop Meeting at the hour of 6:47 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, May 3, 2017, at 5:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.

Craig Elitharp, President
Board of Directors
Vallecitos Water District

ATTEST:

Glenn Pruim, Secretary
Board of Directors
Vallecitos Water District