

MINUTES OF A REGULAR MEETING OF THE BOARD OF DIRECTORS
OF THE VALLECITOS WATER DISTRICT
WEDNESDAY, JUNE 7, 2017, AT 5:00 PM AT THE DISTRICT OFFICE,
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

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

Director Martin 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
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
Financial Analyst Arthur
Executive Secretary Posvar

ADOPT AGENDA FOR THE REGULAR MEETING OF JUNE 7, 2017

17-06-01 MOTION WAS MADE by Director Sannella, seconded by Director Hernandez, and carried unanimously, to adopt the agenda for the Regular Board Meeting of June 7, 2017.

PUBLIC COMMENT

None.

CONSENT CALENDAR

President Elitharp stated he received a Request to Speak form for Item 1.6, Approval of Temporary Off-Site Water and Sewer Service Agreements for Dang/Mai Residence. This item was pulled from the consent calendar for discussion.

- 17-06-02 MOTION WAS MADE by Director Martin, seconded by Director Sannella, and carried unanimously, to approve Items 1.1, 1.2, 1.3, 1.4, 1.5, and 1.7 of the Consent Calendar as presented.
- 1.1 Approval of Minutes
- A. Regular Board Meeting – May 17, 2017
 - B. Board Workshop Meeting – May 24, 2017
- 1.2 Warrant List through June 7, 2017 - \$6,747,943.43
- 1.3 Acceptance of Meadowlark Water Reclamation Facility (MRF) Tertiary Media Filter Replacement
- 1.4 Request for Annexation of Certain Property Designated as “Meadowlark Canyon” (APN: 221-021-45) into the Sewer Improvement District (Meadowlark Canyon, LLC)
- 1.5 Final Acceptance of Water and Sewer Improvements for San Elijo Hills, Phase V, P.A. “O”, Unit 7, APN: 679-221-17 (San Elijo Hills Development Company, LLC)
- 1.7 Approval of Construction Agreement for North City East Infrastructure, APN: 221-110-20, 30, 220-200-40, 47, 48, 49 (Urban Villages San Marcos, LLC)

Discussion of consent calendar Item 1.6 took place as follows:

- 1.6 Approval of Temporary Off-Site Water and Sewer Service Agreements for Dang/Mai Residence

Mike Hunsaker, member of the public, addressed the Board stating there had been a “temporary off-site” water and sewer service agreement a couple of months ago where a construction valve was allowed to remain for about 40 years. The individual was allowed to annex in but he didn’t have to pay any fees because there were no fees applicable at the time he received the construction meter. He questioned why there are almost 40 different plots of land that are operating within the District and now at least one without. They’re not formally required to do annexation. When they annex, they pay certain fees that are proportional to their share of the value of the assets of the District. Because temporary sometimes turns into permanent, he’s wondering why the District is continuing on this road. He thanked the Board.

Development Services Senior Engineer Scholl stated in this instance a public water and sewer line extension does not benefit the District. It costs a single homeowner a lot of money to extend a public infrastructure. He noted this property is within the District’s water and sewer service areas. He further stated the District is trying to get away from entering into temporary off-site agreements where possible; however, it is not feasible with this particular property.

General discussion took place during which Development Services Senior Engineer Scholl stated that when a temporary off-site agreement is approved, the property owner is required to pay capital facilities and administrative fees to the District. General Manager Pruim clarified that in a situation where a temporary line is transferred to the District, the property owner is not responsible to pay a second capacity fee.

17-06-03 MOTION WAS MADE by Director Evans, seconded by Director Hernandez, and carried unanimously, to approve Item 1.6 of the Consent Calendar as presented.

ACTION ITEMS

VALLECITOS WATER DISTRICT RECOMMENDED FISCAL YEAR 2017/18 BUDGET

General Manager Pruim commended staff for their hard work throughout the long budget process which began in December of 2016 during which staff looked for ways to increase efficiencies and control costs while retaining the District's high level of service. He thanked the Finance/Investment Committee for their time and close attention to detail during the preparation of the budget and the entire Board for their time as well. He stated the recommended Fiscal Year 2017/18 Budget includes approximately \$53 million dollars in operating costs and approximately \$122 million dollars in capital project expenses over the next five years.

Finance Manager Fusco provided a presentation on the recommended Fiscal Year 2017/18 Budget as follows:

- What We Do
- FY 2017/18 Budget
- Budget Process Including Cost of Service Study & Rates
- Principal Debt Balance
- Budget to Budget Comparison
- Operating Budget by Division
- 2017/18 Water Operating Expense Budget - \$39,763,000
- Water Operating Expense Budget-to-Budget Comparison
- 2017/18 Wastewater Operating Expense Budget - \$13,217,000
- Wastewater Operating Expense Budget-to-Budget Comparison
- Salaries & Benefits - \$15.5 Million
- Salaries & Benefits Budget-to-Budget Comparison
- FY17/18 Budget Projections – Operating Transfers to Reserves
- Capital Budget-to-Budget Comparison
- Capital Improvement Projects by Function Total
- Capital Improvement Projects by Function (EWA Highlighted)

Staff recommended the Board adopt the recommended Fiscal Year 2017/18 Budget.

Mike Hunsaker, member of the public, addressed the Board expressing his concerns about the priorities of the budget, potential future debt, labor costs and the lack of a break-down of water purchase costs. He thanked the Board.

General discussion took place.

17-06-04 MOTION WAS MADE by Director Martin, seconded by Director Evans, and carried unanimously, to approve the recommended Fiscal Year 2017/18 Budget.

2017 COST OF SERVICE AND RATE STRUCTURE STUDY

General Manager Pruim noted an error on Page 95 of the Board packet concerning the rate survey. The tier limit for "VWD Proposed" should be 6 units available in Tier 1, not 4. He clarified that 6 was used in the calculations.

Assistant General Manager Scaglione provided a presentation on the 2017 Cost of Service and Rates Structure Study Proposed Rates which included changes that were made to address review comments from the rate consultant and legal counsel, the change in effective date from July 1 to January 1, and changes to the table. The presentation included the following:

- Five-Year Rate Projection
- Total Rate Impact (Water and Sewer) at Varying Levels of Use
- Rate Impact – Ready-to-Serve (RTS) plus Commodity
- Single Family 2017 Monthly Water Bill with Low (6 HCF) Use
- Single Family 2017 Monthly Water Bill with Average (13 HCF) Use
- Single Family 2017 Monthly Water Bill with High (21 HCF) Use
- Single Family 2017 Monthly Water Bill with Very High (42 HCF) Use
- Water Projected Replacement Reserves and Proposed Rates
- Sewer Projected Replacement Reserves and Proposed Rates

General discussion took place during which Director Martin asked why sewer rates have not gone up in the last two years and are not projected to increase in the next three years. Assistant General Manager Scaglione explained that the projected reserves have not decreased significantly enough to require an increase in sewer rates.

General Manager Pruim suggested the Finance/Investment Committee and the Board assist staff in reviewing the reserve policy to determine specific targets for reserve levels in the future. This will be brought back to a Finance/Investment Committee meeting in August for discussion.

Staff recommended the Board approve the Cost of Service and Rate Structure Study.

General discussion took place regarding the rate impact on the very high use level. Staff will provide information to the Board as to the number of customers that consistently fall into that category.

Mike Hunsaker, member of the public, addressed the Board stating the previous rate structure based on land use was fairly straightforward and easy to consider and decide what the overall impact was. Going by meter size is not nearly as transparent. Another problem is SB 814, which says that in a drought single family dwellings must conserve. Those who live in apartments, mixed use facilities and mobile home parks may or may not be required to do mandatory rationing depending on how the owner/operator decides to place the bills. If you have a drought and you are no longer allowed to use a certain amount of facilities and capacity, can you be charged the old non-restricted rate?

Mr. Hunsaker asked if meters for mixed-use facilities (commercial and residential) would be charged by one meter size that is supplying water to the mixed-use facility. He also wanted to make sure that the RTS is not following some rigid formula of twice the increase of water. We do have a very substantial, detailed budget and computerized budgeting. It doesn't seem like an arbitrary factor for correlation purposes should be used to set RTS in the future. He thanked the Board.

17-06-05 MOTION WAS MADE by Director Hernandez, seconded by Director Evans, and carried unanimously, to approve the 2017 Cost of Service and Rate Structure Study.

2017 PUBLIC RATE HEARING NOTICE

General Manager Pruim clarified that the Board is not being asked to adopt rates at this meeting. Staff will be seeking the Board's approval of the notice that will be mailed to the customers setting the date for the Public Hearing at which the Board will adopt the rates.

Assistant General Manager Scaglione discussed two changes that have been made to the draft 2017 Public Rate Hearing Notice as discussed at the May 24, 2017 workshop: the summary page is more detailed to show a water-only bill and a sewer-only bill, and the last sentence of the second paragraph on the second page of the notice states what the wholesale rate increase is without the direct desal impact.

Staff recommended the Board approve the 2017 Public Rate Hearing Notice.

General discussion took place during which Director Sannella commented it is important to state for the record the District will be considering a 4% rate increase, of which 3.4% of that is the San Diego County Water Authority's rate increase to the District. He thanked staff for their efforts in keeping the District's costs down in order to keep the rate increase to our customers as minimal as possible.

The consensus of the Board was to change the date of the Public Rate Hearing from August 16 to September 6, with September 20 as the alternative date if needed.

17-06-06 MOTION WAS MADE by Director Hernandez, seconded by Director Evans, and carried unanimously, to approve the 2017 Public Rate Hearing Notice with the date changed to September 6, 2017.

RESOLUTION PLACING IN NOMINATION HAL J. MARTIN AS A MEMBER OF THE ASSOCIATION OF CALIFORNIA WATER AGENCIES (ACWA) REGION 10 BOARD OF DIRECTORS

General Manager Pruiem stated that at the May 17, 2017 Board meeting, the consensus of the Board was to nominate Director Martin for the ACWA Region 10 Board. A nomination form must be completed and a resolution of support from the Board of Directors is also required.

17-06-07 MOTION WAS MADE by Director Hernandez, seconded by Director Sannella, and carried unanimously, to adopt the resolution in support of Director Martin's nomination for the ACWA Region 10 Board.

Resolution No. 1517 – The roll call vote was as follows:

AYES: Evans, Hernandez, Martin, Sannella, Elitharp
NOES:
ABSTAIN:
ABSENT:

REPORTS

GENERAL MANAGER

General Manager Pruiem reported the following:

- A pre-bid meeting with contractors was held on June 6 regarding the locker room expansion project. Bid opening will take place on June 21.
- The auditors have started their preliminary work on the District's annual financial audit. An audit entrance meeting with the Finance/Investment Committee is tentatively scheduled for June 14 at 3:00 p.m.
- Several top officials of Diamond Environmental Services, the subject of a Federal probe, have pled guilty in Federal court and will be sentenced soon for up to five years in prison, up to \$250,000 in fines, and they must forfeit some of the proceeds from their illegal activities. They pled guilty to illegally dumping waste collected from portable toilets into the municipal sewer system. General Manager Pruiem is working with the District's legal counsel and Encina Wastewater Authority to determine to what extent the District was damaged. He will update the Board on the progress of this case.

DISTRICT LEGAL COUNSEL

None.

SAN DIEGO COUNTY WATER AUTHORITY

Director Evans stated the Board meeting is scheduled for June 22 at which a public hearing will be held on the budget and rates. The Finance Committee is currently reviewing the budget and is scheduled to meet on Thursday, June 8. She will be attending that meeting.

Director Evans stated SDCWA General Manager Maureen Stapleton will be providing a presentation to this Board at the June 21 Board meeting.

ENCINA WASTEWATER AUTHORITY

Director Hernandez stated the Capital Improvement Committee's next meeting is scheduled on June 21.

President Elitharp stated the Policy and Finance Committee's next meeting is scheduled on June 13.

STANDING COMMITTEES

President Elitharp stated the Engineering/Equipment Committee met on June 1. Director Hernandez reported on the following topics that were discussed:

- Groundwater – Representatives from Geoscience attended the meeting to discuss groundwater opportunities. The Committee directed staff to put together a Scope of Services to look at the District's groundwater basin.
- Meadowlark Reclamation Facility (MRF) – Staff provided a brief presentation on RMC Engineers' \$50,000 proposal for a study of what it would take to close MRF and if that would result in any savings for the District. The Committee directed staff to conduct an engineering study on this subject which would be far less expensive.
- Solar Energy – The Public Utilities Commission is reviewing a request from San Diego Gas & Electric to minimize the time-period in which the tariff does not apply. The Committee directed staff to obtain proposals from other consultants to place solar on the District's Twin Oaks facility and any other appropriate District facilities.

DIRECTORS REPORTS ON TRAVEL/CONFERENCES/SEMINARS ATTENDED

None.

OTHER BUSINESS

None.

DIRECTORS COMMENTS/FUTURE AGENDA ITEMS

Director Martin expressed his concern about the Federal indictments of Diamond Environmental Services officials in San Marcos regarding illegal dumping of waste into the sewer system. He asked the Board to consider how long Diamond Environmental Services was dumping waste, including biohazards, into the District's sewer system, who knew what, and why the Board wasn't informed of this situation. He believes an investigation is necessary to get to the bottom of this and to hopefully clear the District's name in having anything to do with it.

Director Sannella concurred with Director Martin's concerns about the Diamond Environmental Services issue. He would like to consider and pursue any and every course of action to try and get restitution and recover some of the losses the District's customers may have experienced. He is also deeply concerned about the lack of communication to the Board on this matter, including the District's representatives to EWA's Board. Did they know of it, and if so, why didn't they inform the rest of the Board?

General discussion took place during which President Elitharp and Director Hernandez stated they had not been informed of any details of the Federal investigation and only learned about it a few weeks ago. General Manager Pruim stated he first became aware of the investigation on May 25, the day before he emailed the information to the Board. He received an update on June 5 of which he forwarded to the Board. Further, he does not believe staff withheld information from the Board.

Director Hernandez asked to bring back Ordinance No. 203, "Establishing the General Provisions for Conducting the Business of the Board..." for a discussion on who's on first.

Director Hernandez requested a report at an August Board meeting on the grant that the City lost relative to South Lake. General Manager Pruim stated he will be meeting with City of San Marcos staff on June 12 to discuss the status of the recreational amenities around South Lake and will bring up the subject of the grant as well.

Director Martin reiterated that the Board is requesting staff to provide information about the illegal dumping as soon as possible.

Director Sannella requested the timing of updates for the development project behind the District office. General Manager Pruim stated a meeting with the appraiser and the District's legal counsel is scheduled for June 8 to review the draft appraisal.

ADJOURNMENT

There being no further business to discuss, President Elitharp adjourned the Regular Meeting of the Board of Directors at the hour of 6:29 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, June 21, 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