

VALLEY CENTER MUNICIPAL WATER DISTRICT

Regular Board Meeting

Monday, June 20, 2022 – 2:00 P.M.

Place: Board Room

29300 Valley Center Road; Valley Center, CA 92082

Due to the COVID-19 State of Emergency this Board Meeting is being conducted via Web Conference and Live Stream pursuant to Government Code §54953(e)(1)(A), which provides waivers to certain provisions of the Brown Act during a proclaimed state of emergency when state or local officials have imposed or recommended measures to promote social distancing, and allows some or all of the District's Directors to participate in the meeting telephonically or via video conference.

The Valley Center Municipal Water District Board of Directors' meeting was called to order by Vice President Ferro at 2:00 P.M. Vice President Ferro established for the record that all Directors were able to hear the proceedings, that all members of the Board were able to hear the Directors participating by teleconference clearly, and that all votes would be taken by a roll call vote pursuant to the provisions of the Brown Act.

ROLL CALL

Board Members Present: Vice President Ferro and Director Smith present in the Board Room; with Director Holtz teleconferencing. *Noting vacancy in Division 2 Director Seat.*

Board Members Absent: President Polito.

Staff Members Present: *General Manager Arant, District Engineer Grabbe, Director of I.T. Pilve, Director of Finance and Administration Pugh, Manager of Accounting Velasquez, Senior I.T. Specialist Day, Director of Operations and Facilities Lovelady, and Executive Assistant/Board Secretary Peraino; with Special Projects and Compliance Manager Olson, Assistant General Counsel Norvell, and Federal Consultant Howells (HGR) teleconferencing.*

Guests Present: Mr. Cooper Ness.

PUBLIC COMMENTS / QUESTIONS

Vice President Ferro established for the record the process by which public comments are received by the Board; this process was also described in the Agenda for the meeting.

CONSENT CALENDAR

Action: Upon motion by Smith, seconded by Holtz; and unanimously carried, the following consent calendar items were approved:

1. **Minutes of the Regular Board Meeting Held Monday, June 6, 2022;**
2. **Audit Demands for Check Nos. 163012 – 163098 for May 27 through June 9, 2022; and**
3. **Board of Director's Request for Reimbursement of Expenses and Report of Expense Reimbursements per Government Code §53065.5.**

ACTION AGENDA

4. **Candidate Interview and Appointment of Cooper T. Ness as Division Two (2) Director:**

Interview with the candidate, Mr. Cooper T. Ness, to fill the open seat on the Board of Directors from Division 2 was conducted. Mr. Ness addressed the Board stating that he is interested in serving on the Board and looks forward to the opportunity to serve his community. Mr. Ness a fifth-generation Valley Center resident and manager carrying on the family legacy – at Bates

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Nut Farm, part of the Valley Center Community for over 100 years. In addition to being a Manager of one of the most recognizable agricultural farms in the region, Cooper has an Associate's Degree in Business Administration.

This introduction was followed by questions by the Board members. After Board questions and discussions, a motion was made to appoint Mr. Ness as the Election Division 2 Director.

Action: Upon motion by Smith, seconded by Holtz; and unanimously carried, the following Resolution was approved:

RESOLUTION NO. 2022-24

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE
VALLEY CENTER MUNICIPAL WATER DISTRICT APPOINTING
COOPER NESS TO THE BOARD OF DIRECTORS OF THE
DISTRICT, REPRESENTING ELECTORAL DIVISION 2**

Was adopted by the following vote, to wit:

AYES: *Directors Ferro, Holtz, and Smith*
NOES: *None*
ABSENT: *President Polito*

INFORMATIONAL AGENDA

5. Proposed Fiscal Year 2022-23 Preliminary Budget Review:

Additional information related to the revenue, expense, and capital projections for FY 2022-23 to that which was presented on April 18, 2022 was provided by Manager of Accounting Velasquez. Since the initial meeting several changes have been made to the major assumptions. Additionally, the San Diego County Water Authority (SDCWA) released their proposed rate increases for calendar year 2023. Using that information, staff determined reasonable rate increases to cover passing through the wholesale costs and cover local operating costs.

Since the last report to the Board presented on April 18, 2022, there were a few material changes to some of the major assumptions. They are summarized below:

- The Actuarial Valuation for the Other Post Employment Benefit (OPEB) was received on May 20, 2022. It included the Actuarially Determined Contribution (ADC) for Fiscal Year 2022-23. Originally, the ADC had been estimated at \$636,300. The report indicated a much lower ADC of \$406,778, a decrease of approximately \$230,000.
- The new proposed capital appropriations for the Lower Moosa Canyon Water Reclamation Facility were reviewed and refined. Originally, staff had proposed new appropriations of \$660,590 which included upgrades to Moosa Clarifier No. 2 and the full cost of two new vehicles. A thorough review indicated that the upgrade to Moosa Clarifier No. 2 could be postponed pending completion of the Lowe Moosa Master Plan and the two vehicles that will be purchased will be funded 50% by the Moosa Wastewater Fund and 50% by Woods Valley Ranch Wastewater Fund as they are used by both facilities. The two changes reduced the new Appropriations to a total of \$271,795, a decrease of \$388,795.
- The new proposed capital appropriations for the Woods Valley Ranch Water Reclamation Facility were originally proposed at \$34,000. That did not include half the cost of the Vehicles described above. Including half the cost of the two new vehicles brings the new Capital Appropriations total of \$122,795, an increase of \$88,795.

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- The preliminary budget included a 5.2% increase to the Grinder Pump Maintenance Charge in the Woods Valley Ranch Wastewater Fund for Fiscal Year 2022-23. The proposed increase is not proposed to go into effect until July 1, 2023. It will not affect the Fiscal Year 2022-23 budget.

Estimated sales are budgeted at 16,500-acre feet. Projected Operating Revenues total \$46,133,750, of which Water Sales and Pump Charge revenue alone account for 78%. Revenue estimates include increases to the following rates: 4.7% increase to Domestic Rate; 5.7% increase to the PSAWR Rate; 5.2% increase to the Monthly Service Charge; 10% increase to the Pumping Rates; with no changes to the SDCWA IAC. The PSAWR Discount is estimated at \$593 per acre foot, up \$11 from the previous FY.

Included in the proposed budget numbers are estimates for rate increases based on the most recent information received from the SDCWA regarding their proposed wholesale commodity rates as well as fixed charges. Using that most recent data, the following estimated rates were used to prepare the preliminary budget. Actual rates to be adopted effective February 1, 2023, may be different.

<u>Description</u>	<u>Domestic</u>		<u>PSAWR</u>	
	<u>Current</u>	<u>Proposed</u>	<u>Current</u>	<u>Proposed</u>
Imported Water Costs	\$2,101.03	\$2,199.00	\$1,517.67	\$1,606.28
VCMWD	\$260.10	\$273.64	\$260.10	\$273.64
Total	<u>\$2,361.13</u>	<u>\$2,472.64</u>	<u>\$1,777.77</u>	<u>\$1,879.92</u>
Proposed increase		\$111.51/AF 4.7%		\$102.15/AF 5.7%

Also included in the water charges the District is required to pay SDCWA and Metropolitan Water District (MWD) in 2023 are fixed charges for capacity, readiness to serve, customer service, emergency storage, and supply reliability. The District calculates the per-acre-foot equivalent of these charges by dividing the total charges by projected water sales, less an 8% reserve for sales levels under budgeted amounts. For the fiscal year ending 2023 budgeted sales are 16,500-acre feet and the 2023 projected fixed charges are allocated over 15,180 acre feet. Total fixed charges are 0.9% higher than estimated actuals for Fiscal Year 2022.

The proposed budget includes increasing the monthly water service charges by 5.2%. This results in proposed service charges as shown below.

<u>Meter Size</u>	<u>Proposed Water Service Charge</u>			
	<u>Active Service Charge</u>		<u>Inactive Service Charge</u>	
	<u>Current</u>	<u>Proposed</u>	<u>50% of Active Service Charge</u>	
	<u>Current</u>	<u>Proposed</u>	<u>Current</u>	<u>Proposed</u>
¾"	\$ 45.12	\$ 47.46	\$ 22.56	\$ 23.73
1"	\$ 61.64	\$ 64.84	\$ 30.82	\$ 32.42
1.5"	\$ 92.46	\$ 97.26	\$ 46.23	\$ 48.63
2"	\$ 123.28	\$ 129.68	\$ 61.64	\$ 64.84
3"	\$ 184.92	\$ 194.52	\$ 92.46	\$ 97.26
4"	\$ 246.56	\$ 259.36	\$ 123.28	\$ 129.68
6"	\$ 369.84	\$ 389.04	\$ 184.92	\$ 194.52
8"	\$ 493.12	\$ 518.72	\$ 246.56	\$ 259.36

This 5.2% increase would generate additional service charges of approximately \$359,000 over a 12-month period. We propose the increase be implemented on February 1, 2023, concurrent with the VCMWD Commodity Rate.

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With these increases, the Fiscal Year 2022-23 budgeted local operating costs would be covered 27.6% with revenue from the Local Commodity Component and 58.1% with the Meter Service Fee for a total of 85.7% coverage with Local Revenues alone. The remaining 14.3% will be covered with Non-Operating Revenues, including investment income, lease revenue, and other miscellaneous non-operating income.

Budgeted purchases are estimated at 17,550-acre feet and projected Operating Expenses total \$46,039,595. The majority of the expenses are for the cost of water and energy which amount to 68% of the total. The remaining 32% are local operating expenses.

In summary, Operating Revenues of \$46,133,750 less Operating Expenses of \$46,039,595 result in net operating revenue of \$94,155.

Proposed Water Capital Appropriations are estimated at \$6,049,000 of which \$3.4M will be funded with revenues collected from general property taxes and water availability charges. The remaining \$2.5M will require the use of Capital Improvement Reserve funds.

Below is a list of each new capital project request:

• San Gabriel Reservoir No. 1 Paint & Recoat	\$2,040,000
• Mtn. Meadows Reservoir No. 1 & Reid Hill Paint & Recoat	\$1,590,000
• Kornblum Reservoir Mixing & Chlorination	\$ 300,000
• New Valve Installations & Appurtenances	\$ 200,000
• Pump Station Power Monitors	\$ 56,220
• Water Age Analysis	\$ 100,000
• Enterprise Resource Planning Software Upgrade	\$ 750,000
• GIS Easement Integration	\$ 75,000
• Document Management System	\$ 65,000
• Server Virtualization, Storage, Disaster Recovery	\$ 63,080
• Computerized Maintenance Management System	\$ 25,000
• Boardroom A/V Technology Upgrade	\$ 19,200
• Service Trucks (2)	\$ 283,100
• Hooklift Truck	\$ 238,800
• Dump Truck	\$ 189,100
• Pickup Truck	\$ 54,500
Total New Proposed Capital Appropriations	\$6,049,000

Unappropriated Budgeted Funds not proposed to be carried forward total \$294,008. This amount consists of projects that have been re-prioritized; as a result, those budgeted funds will not be carried forward. The remaining \$234,008 in unappropriated budgeted funds are from projects that were completed in FY 2021-22 and had a remaining budget balance that was either transferred to another project or is not proposed to be carried forward.

Revenues for the Lower Moosa Canyon Water Reclamation Facility (WRF) total \$1,877,860 while expenses total \$1,477,490, resulting in net operating revenue of \$400,370. Included in the budget is a 5.2% increase to both the Sewer Service Charge and the Low-Pressure Sewer Maintenance Fee. New Capital Appropriations total \$271,795. Total Net Revenue of \$128,575 will be transferred to the Replacement Reserve at year end. Below is a list of each new capital project request:

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• Aeration Air Piping Upgrade	\$150,000
• Sludge Transfer Pump Upgrade/Replacement	\$ 33,000
• Service Truck (50% funding)	\$ 59,795
• Pickup Truck (50% funding)	\$ 29,000
Total New Proposed Capital Appropriations	\$271,795

The Woods Valley Ranch WRF projected revenues are anticipated to meet all operating expenses and capital expenditures in FY 2022-23. Projected Revenues total \$1,433,054. There are no proposed changes to the fees and charges. Operating Expenses total \$938,493. New Capital Appropriations total \$122,795. This results in Total Net Revenue of \$371,766 which will be transferred to Reserves at year end.

Below is a list of each new capital project request:

• Membrane Filters	\$ 34,000
• Service Truck (50% funding)	\$ 59,795
• Pickup Truck (50% funding)	\$ 29,000
Total New Proposed Capital Appropriations	\$122,795

On June 23, 2022 the San Diego County Water Authority will hold a public hearing for the adoption of Calendar Year 2023 Rates and Charges. Staff plans to return to the Board on July 5, 2022 for final review and possible Adoption of the Proposed Fiscal Year 2022-23 Operating and Capital Budget. Any proposed rate increases for Calendar Year 2023 would be presented to you in October/November 2022.

Action: No action required, informational item only. At the July 5, 2022 Board Meeting, staff will return to request adoption of the proposed fiscal year 2022-23 budget.

GENERAL MANAGER'S AGENDA

6. General Information:

The following general informational items were reported by General Manager Arant:

- The May 2022 Monthly Status Report was Received and Filed;
- Announced the 2021 Consumer Confidence Report/Water Quality Report is Now Available.
- An Update on the CFD 2020-1 Series 1 Bond Sale, Including a Revised Schedule;
- Reopening the Board Meetings to In-Person Public Attendance;
- Conservation Program Roll-Out; *and*
- An Update on the Solar Projects Underway at both Lower Moosa Canyon & Corporate.

Action: Informational item only, no action required.

DISTRICT GENERAL COUNSEL'S AGENDA

None.

BOARD OF DIRECTORS' AGENDA AND REPORTS ON MEETINGS ATTENDED

7. Disposition of Metropolitan Water District (MWD) Litigation Damages from Third Award:

General Manager Arant provided a brief overview of the MWD Litigation Damages Award, noting the SDCWA determination of the \$14,649,112.78 in attorney's fees (from the 2010 and 2012 rate litigation) and how the funds are to be distributed among its member agencies. However, \$4.2M will be retained by the SDCWA to fund ongoing litigation for FY 2022-23. The award is to be distributed based upon the pro-rata share of each agency's use of M&I water; with VCMWD share of the award being \$313,768.93.

When combined with the first two awards, the District will have received a total of \$2,328,456.10. When the District received the first award of \$1,332,447.35 in March of 2021, staff presented several options for the use of the funds. Ultimately, the Board voted to use the funds for the FY 2021-22 CIP Program. When the District received the second award of \$682,215.91 in November 2021, staff presented several options for the use of the funds. Ultimately, the Board voted to use the funds to reduce the unfunded liability in the District's Other Post-Employment Benefits (OPEB) debt.

The following options for dispensation of the MWD Litigation Award were presented by General Manager Arant: (1) Use for a rate rebate/refund to District customers; (2) Use for one-time capital improvement projects/investments; (3) Pay toward the CalPERS and/or OPEB unfunded liability; or (4) Place in the District's Operating Reserve for future use.

As the Board evaluates the options for how to use the funds, staff does have some concerns about the financial uncertainties which are current and lie ahead:

- Impacts of the drought have been minimized due to the SD Region's water supply portfolio investments;
- Governor Newsom has stated that if there is not an adequate response to his latest Executive Order N-7-22 and the SWRCB Drought Order, then mandatory reductions may be ordered, irrespective of regional water supply conditions;
- If this were to occur there could be a negative effect on water sales revenues;
- Refund represents 7.2% of the local water sales revenue, \$4,358,000 for FY 2022-23 and could offset the impacts of a mandatory reduction.

With these concerns in the forefront, staff recommended the Board consider deferring action on the disposition of the third refund at least for the remainder of 2022; directing the funds be placed in the District's Operating Reserve, with disposition reevaluated in January 2023. At that time staff should understand more about the potential mandatory drought response, impacts of inflation, and the general condition of the state's economy, stated Mr. Arant.

Action: Upon motion by Smith, seconded by Holtz; and unanimously carried, staff's motion to defer decision until January 2023, passed.

BOARD OF DIRECTORS' AB1234 REPORTS ON MEETINGS ATTENDED

None.

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ADJOURNMENT

Action: Upon motion by Holtz, seconded by Smith; and unanimously carried, motion to adjourn passed, the regular meeting of the Board of Directors was adjourned at 3:20 p.m.

ATTEST:

ATTEST:

Robert A. Polito, *President*

Kirsten N. Peraino, *Secretary*

Approved at a regularly scheduled Board Meeting on Tuesday, July 5, 2022