

VALLEY CENTER MUNICIPAL WATER DISTRICT

MINUTES

Regular Meeting of the Board of Directors

Monday, May 15, 2023 – 2:00 P.M.

The Valley Center Municipal Water District Board of Directors' meeting was called to order by President Polito at 2:00 PM. In the Board Room at 29300 Valley Center Rd.; Valley Center, CA 92082. Additionally, the Board Meeting was livestreamed for those who wish to observe remotely.

ROLL CALL

Board Members Present: *President Polito, Vice President Ferro, Director Holtz, Director Smith, and Director Ness. Vice President Ferro arrived at 2:05 PM.*

Staff Members Present: *General Manager Arant, Director of IT Pilve, District Engineer Grabbe, Director of Finance and Administration Pugh, Director of Operations and Facilities Lovelady, Manager of Accounting Velasquez, Executive Assistant/Board Secretary Peraino, General Counsel de Sousa, and Federal Consultant Howells (HGR) present in-person.*

PUBLIC COMMENTS

President Polito 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 ITEM(S)

1. **Minutes of the Regular Board Meeting Held Monday, May 1, 2023;**
2. **Audit Demands for Check Nos. 166003 – 166079 from April 21 – 27, 2023 and Wire Disbursements for Month Ending April 30, 2023; and**
3. **Treasurer's Report for Month Ending March 31, 2023 with Quarterly Financial Report Ending March 31, 2023;**
4. **Auditor's Communication with Those Charged with Governance (SAS 114) Letter;**
5. **Postponement of Public Hearing to June 5, 2023 to Consider Proposed Increases to Various Water Meter Fees and Charges and Related Admin Code Modifications; and**
6. **Adoption of Resolution No. 2023-16 Adopting 2023 Revisions to Local Guidelines for Implementing the California Environmental Quality Act (CEQA).**

Action: Upon motion by Smith, seconded by Ness; and unanimously carried, the previously listed consent calendar items were approved.

ACTION ITEM(S)

7. Designation of Voting Delegates for the Association of California Water Agencies (ACWA) Concurrent Board Officer and Region 10 Elections:

The Association of California Water Agencies (ACWA) has launched two separate but concurrent election processes for the 2024-'25 term - the Board Officers' election for President and Vice President and the Region Board Officer and Member election. In order to participate in both elections, the Board must designate a Voting Delegate and Alternative Voting Delegate by the June 16, 2023 deadline, stated General Manager Arant.

Both the Board Officer and Region 10 Elections will begin on July 17, 2023, with electronic ballots emailed to General Managers and Board Presidents. Starting this year, as a result of bylaw changes approved by the membership in 2022, ACWA initiated new processes for ACWA members to elect the President and Vice President. There will be no voting at the ACWA Fall Conference, instead, voting will be electronically.

Action: Upon motion by Ferro, seconded by Holtz; motion to designate Director Smith as the Voting Delegate and General Manager Arant as the Alternate Voting Delegate, unanimously passed.

8. Review of Proposed Pumping Charge Increases – Analysis and Comparison:

The preliminary budget includes a 10% increase in the current pumping rates. It's estimated that the rate increase will be sufficient to cover the cost of electricity and natural gas with approximately \$165,000 remaining to cover a small portion of the pump and motor maintenance expenses that total \$998,800 in the new budget. Total Pumping Costs including electricity, natural gas, and pump and motor maintenance are estimated to increase by 12.8% over the current year's estimated actual expenses.

Since the Pumping Rate Stabilization Fund was depleted in FY 2016-17, utility costs alone have increased so quickly that the District is no longer able to cover pumping costs solely with pumping charge revenue. The annual shortfalls have been covered by non-operating revenues, further reducing the contribution to capital replacement reserves. Four options were presented to consider for raising the pumping charge in FY 2023-24, with each option, at minimum, covering the wholesale Utility Costs of electricity and natural gas. The fourth option, however, was not recommended by staff, but only shown to demonstrate the percent increase required to break even.

- 10%: Will generate annual revenue, just barely sufficient to cover the anticipated pumping utility costs; however, it will only cover approximately 6% of the anticipated maintenance costs, leaving an expected deficit of \$833,800.
- 12.8%: Represents the Total Pumping Utility Cost increase anticipated in the FY 2023-24 Budget when compared to the estimated actual figures for the current FY 2022-23. A 12.8% increase will cover the anticipated increases in the Budget for FY 2023-24; however, it will do nothing to resolve the larger issue of not generating sufficient annual revenues from the pumping charges to cover Total Pumping Costs.
- 17.3%: As previously established, for the FY 2023-24 Proposed Budget, the Total Pumping Cost percent increase is expected to be 12.8%. Adding an additional 4.5% increase would bring the proposed pump charge rate increase up to a total of 17.3%. This would ensure that the District is passing through all cost increases and beginning to close the deficit that currently exists in the Net Pumping Revenues.

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- 42%: Represents the increase required to cover 100% of the anticipated Total Pumping Costs in FY 2023-24 with pumping charge revenues in the same year. A 42% increase relies heavily on the last 5 months of FY 2023-24 (Feb. 2024–June 2024) to catch up on an issue that has been growing over the past 5 years and was emphasized by staff that this option was not recommended.

Ms. Velasquez reminded the Board that it has taken 5 years for the deficits in the Net Pumping Revenues to reach the levels that are seen today. Ms. Velasquez introduced the idea of considering a long-term solution to close the deficits in the Net Pumping Revenues over a period 6 years. Projections were calculated using historical averages that included 16% annual increases to the pumping utility costs and 3% to the annual maintenance costs. By calculating those projections, staff determined that, in addition to whatever the actual increase in Total Pumping Costs may be each year, a Fixed Increase Requirement of 4.5% annually would be necessary to close the deficit gap by FY 2028-29. The ultimate goal would be to ensure that annual revenues from pumping charges are sufficient to cover 100% of Total Pumping Costs.

The pumping charges would be proposed to go into effect for the Feb. 1, 2024 billing. A detailed chart showing the current pumping rate compared to the proposed rates under each of the four options was presented. Pump Zone 7, having the most active accounts, was used as an example and are shown below. The current rate for Pump Zone 7 is \$303.06/acre foot (AF).

- 10% proposed rate increase would raise the rate \$30.31/AF up to \$333.36/AF.
- 12.8% proposed rate increase would raise the rate \$38.79/AF up to \$341.85/AF.
- 17.3% proposed rate increase would raise the rate \$52.43/AF up to \$355.48/AF.
- 42.0% not recommended, would raise the rate \$127.28/AF up to \$430.34/AF.

Action: The Board directed staff to proceed with incorporating the 17.8% pumping rate increase into the draft budget.

INFORMATION ITEM(S)

9. Review of Preliminary Findings for Proposed Water Meter Capacity, Incremental Capacity and Annexation Charges:

Proposed increases in Water Meter Capacity (including Specific Benefit Area Charges) and Annexation Charges were presented by District Engineer Grabbe. In addition, proposed modifications to the District's Administrative Code regarding Accessory Dwelling Units (ADUs) and the Reserve Policy were reviewed. In addition to the San Diego County Water Authority ("SDCWA") Meter Capacity and Annexation Charges (which are set independently from the District), the District's Water Meter Capacity Charges are collected for new water meters purchased from the District and a per acre District Annexation Charge is collected from properties requesting annexation to the District.

Modifications to the approach since last year include updating the asset values to the current Replacement Cost New Less Depreciation value and updating the equivalued meter count. The last adjustment to Meter Capacity Charges and Annexation Charge was approved in February 2022. Staff's recommendations are based on the estimated water system and non-facility asset values as of June 30, 2022. Key considerations in determining the value of the water system assets include adjustments made to the useful life of the facility assets, not considering contributed capital, and adjustments for the amount of the asset value attributable to tax and availability charge revenue, reminded Mr. Grabbe. Staff proposed an increase in the Meter Capacity Charges of approximately 8.8%, from \$5,242 to \$5,705 for a ¾-inch meter.

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An Incremental Component to the Water Meter Capacity Charge is added for projects that fit one of two of the following criteria: 1) Projects constructed by the District that benefit future connections in a specific area, or 2) Contributed Capital Projects (Developer Projects with Reimbursement Agreements) that benefit future connections in a specific area. In situations where an Incremental Component applies, a Specific Benefit Area (SBA) is established and a Specific Benefit Area Capacity Charge (SBACC) is separately approved; conceptually during the project approval process, based on estimated project costs (with final approval after project is completed, when all costs are known). The Specific Benefit Area Charge is added to the Meter Capacity Charge for new meters, only for properties within the SBA. Staff recommended a 6.1% increase in the SBA Charge attributed to District projects, based on the Engineering News Record Construction Cost Index and an additional year of depreciation. No increases to the charges attributed to Developer projects were recommended.

Annexation Charges are collected from properties requesting annexation to the District. Property owners outside of the District have not paid Availability Charges or tax revenues to the District, and as such, would need to buy-in to the value attributed to those revenue sources to be on an equal basis as customers within the District. An increase in the Annexation Charge of 7%, from \$1,325 per acre to \$1,418 per acre, was also proposed.

In addition to modifying the Administrative Code to reflect the increases in the capacity charges, staff proposed two other modifications: 1) to clarify the capacity charge requirements for Accessory Dwelling Units (ADUs) and 2) to clarify the reserve requirements for the administration of the capacity charges.

- ADUs – This proposed modification would indicate that pursuant to state legislation there is no additional capacity or connection charge for adding an ADU to an existing service. Capacity and connection charges for ADUs constructed with new single-family dwelling units would be based on the water meter size required for the new development.
- Capacity Charge Administration – This proposed modification would create an additional reserve for administering the “Incremental” component of collected capacity charges and would clarify the approved uses of the “Buy-In” component of the collected capacity charges.

Staff will incorporate the Board's discussion and direction from this meeting into the final recommendation to be presented at the June 19, 2023 Board meeting. If approved at that time, the new charges would take effect in mid-July, a minimum of 30-days after approval.

Action: Board input received and will be incorporated into the final recommendation to be presented at the June 19, 2023 Board Meeting.

GENERAL MANAGER'S ITEM(S)

10. San Diego County Water Authority's Board Meeting Summary:

A report on the San Diego County Water Authority's Board of Directors' Meeting of April 27, 2023 was provided.

Action: Informational item only, no action required.

11. General Information:

A review of General Informational items reported on by General Manager Arant.

Action: Informational item only, no action required.

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DISTRICT GENERAL COUNSEL'S ITEM(S)

General Counsel de Sousa gave a brief update on pending legislation.

BOARD OF DIRECTORS' AB1234 REPORTS ON MEETINGS ATTENDED

Director Smith reported on his attendance at the ACWA-JPIA Spring Conference on May 8, 2023, and the ACWA 2023 Spring Conference.

CLOSED SESSION ITEM(S)

At any time during the regular session, the Board may adjourn to closed session to consider litigation, personnel matters, or to discuss with legal counsel matters within the attorney-client privilege. Discussion of litigation is within the attorney-client privilege and may be held in closed session. *Authority: Government Code §54956.9.*

ADJOURNMENT

Action: Upon motion by Ferro, seconded by Smith; motion passes unanimously, the regular meeting of the Board of Directors was adjourned at 3:37 PM.

ATTEST:

ATTEST:

Kirsten N. Peraino, *Secretary*

Robert A. Polito, *President*

Approved at a regularly scheduled Board Meeting on Monday, June 5, 2023