

VALLEY CENTER MUNICIPAL WATER DISTRICT

MINUTES

Regular Meeting of the Board of Directors

Monday, June 19, 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, Directors Holtz, Smith, and Ness.*

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, Senior IT Specialist Day, Executive Assistant/Board Secretary Peraino, General Counsel de Sousa, and Federal Consultant Howells (HGR) present in-person.*

PUBLIC COMMENT(S)

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, June 5, 2023;**
2. **Audit Demands for Check Nos. 166293 – 166401 from May 26 – June 8, 2023 and Wire Disbursements for the Month Ending May 31, 2023;**
3. **Bid Results & Request to Approve PO #115436 for Purchase of 1 New 2023 Vehicle;** *and*
4. **Bid Results & Request to Approve PO #115494 for Purchase of 1 New 2023 Vehicle.**

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

ACTION ITEM(S)

5. **Adoption of Ordinance No. 2023-06 Amending the District's Administrative Code Increasing Meter Capacity and Annexation Charges:**

A second presentation on the proposed increases in Water Meter Capacity (including Specific Benefit Area Charges) and Annexation Charges was presented by District Engineer Grabbe. An initial review of the proposed updates was presented to the Board at its May 15, 2023 Board Meeting. 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, reminded Mr. Grabbe.

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Modifications to the approach since last year included updating the asset values to the current replacement cost new less depreciation and updating the equivalent meter count. The last adjustment to Meter Capacity and Annexation Charges was approved in February 2022. Staff proposed the following increases, based on estimated water system and non-facility asset values as of June 30, 2022:

- 8.83% increase in the Meter Capacity Charges from \$5,242 to \$5,705 for a ¾-inch meter.
- An average 4.4% increase in the SBA Charge for the following projects, based on the Engineering News Record Construction Cost Index plus an additional year of depreciation:
 - High Mountain (4.80% Increase),
 - Wilkes Rd (6.49% increase), and
 - Via Piedra Waterline Extension (no increase)
- 7.0% increase in the Annexation Charge, from \$1,325 to \$1,418 per acre.

Meter Capacity Charges:

The meter capacity charge reflects the costs of providing and maintaining the capacity in the water supply and distribution system for the capacity rating of the meter size being purchased. These meter capacity charges are developed using a two component buy-in approach; 1) a base buy-in component to District wide beneficial facilities and 2) an incremental buy-in component for capital improvement projects benefitting specific portions of the District's service area. Revenue received from the meter capacity charges can be utilized for the replacement, upgrade and upsizing of the existing water facilities.

Incremental Charges:

An Incremental Component to the Water Meter Capacity Charge is added for projects that fit 1 of 2 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 SBACC is only added to the Meter Capacity Charge for new meters, for properties within the SBA.

- District-Funded Projects — Incremental Charges have been established for the following water facility projects previously funded by the District; High Mountain Waterline, Red Ironbark Pump Station, and the Wilkes Road Waterline Extension Project.
 - All new connections in the Red Ironbark SBA have been funded, SBACC is complete.
 - The High Mountain Drive and Wilkes Road projects are active SBAs.
- Developer-Funded Projects — Currently there is one remaining water facility developer reimbursement agreement in effect, the Via Piedra Waterline Extension Project.

Annexation Charges:

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.

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Administrative Code Modifications:

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

- ADUs – The proposed modification to §160.2 indicated 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 – The proposed modification to § 50.2 (a) Reserves clarified the administration of “Incremental” and “Buy-In” components of the collected capacity charges and approved uses of the collected capacity charges.

The amendments would be effective July 24, 2023 to provide for a 30-day public protest period pursuant to Administrative Code §30.12(a).

Action: Upon motion by Holtz, seconded by Ness; motion to approve the following Ordinance passed unanimously:

ORDINANCE NO. 2023-06

**ORDINANCE OF THE BOARD OF DIRECTORS OF THE
VALLEY CENTER MUNICIPAL WATER DISTRICT AMENDING THE
FOLLOWING ADMINISTRATIVE CODE ARTICLES: ARTICLE 160
INCREASING WATER METER CAPACITY CHARGES AND CLARIFYING
ACCESSORY DWELLING UNIT METER REQUIREMENTS, ARTICLE 220
INCREASING THE ANNEXATION CHARGE, AND ARTICLE 50
CLARIFYING CAPACITY CHARGE RESERVE REQUIREMENTS**

Was adopted by the following vote, to wit:

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

6. Adoption of Resolution No. 2023-20, Recognizing and Congratulation the Santa Fe Irrigation District on its 100-Year Anniversary:

On June 21, 2023, the Santa Fe Irrigation District (SFID) will celebrate 100 years of successful water delivery to the constituents and communities within its service area. Adoption of VCMWD Resolution No. 2023-20 recognizes and honors the SFID for this outstanding accomplishment.

Action: Upon motion by Smith, seconded by Ferro; motion to approve the following Resolution passed unanimously:

RESOLUTION NO. 2023-20

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLEY CENTER
MUNICIPAL WATER DISTRICT RECOGNIZING AND CONGRATULATING
THE SANTA FE IRRIGATION DISTRICT ON ITS 100-YEAR ANNIVERSARY**

Was adopted by the following vote, to wit:

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

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INFORMATIONAL/POSSIBLE ACTION ITEM(S)

7. Adoption of the Operating and Capital Budget for Fiscal Year 2023-24:

In the third presentation of this item to the Board, a review of the Fiscal Year (FY) 2023-24 Budget with an option to adopt was given. Additional information related to the revenue, expense, and capital projections for FY 2023-24 to that which was presented on May 1, 2023 was provided by Manager of Accounting Velasquez. Staff also presented a supplementary report at the Board meeting of May 15, 2023 that included an analysis and comparison of the proposed Pumping Charge increase. At the end of that presentation, the Board directed staff to proceed with incorporating a 17.3% pumping rate increase into the proposed budget.

Since the initial presentation, several changes have been made to the major assumptions. Additionally, the San Diego County Water Authority (SDCWA) released its proposed rate increase options for Calendar Year (CY) 2024. Using that information, staff determined reasonable rate increases to cover passing through the wholesale costs and cover local operating costs: The pumping charge increase was changed from 10% to 17.3% as directed by the Board. This increase will ensure that the District is passing through the anticipated pumping Utility Costs increases from SDG&E and beginning to close the deficit that currently exists in the Net Pumping Revenues, with the goal of closing the gap over the next 6 FYs. The proposed pass-through of the SDCWA Infrastructure Access Charge was originally proposed to increase by 1.9% effective Jan. 1, 2024. The updated proposal by SDCWA is a 4.0% increase that would increase the IAC for a ¾-inch meter to \$4.41/month, that's up \$0.17 from the current rate of \$4.24/month.

Staff is projecting that water operating revenues and non-operating revenues will exceed projected operating expenses by \$346,146, or 0.65% of General Fund Revenues, in the proposed FY 2023-24 Budget, with the excess dedicated to capital improvements. New water capital appropriations are estimated at \$4,707,750 of which \$3.8M will be funded with revenues collected from general property tax, water availability charges, and capacity charges. The remaining \$950K will be funded with State Revolving Fund Loan Proceeds.

For the year ending June 30, 2022, the District sold 16,207 acre feet of water. For the current year ending June 30, 2023, it is projected that the District will sell 14,400 acre feet of water which is lower than the current budgeted sales amount of 16,500 acre feet and is related to both extreme wet weather conditions and the related reduction in agricultural demand. Reflecting the general downward trend in water demand, for FY 2023-24 the District budgeted water sales at 16,000 acre feet. Staff believes that the estimate for FY 2023-24 is reasonable given the uncertain agricultural environment.

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 options as well as fixed charges. Using that most recent data, the following estimated rates were used to prepare the budget. Actual rates to be adopted effective February 1, 2024, may differ.

Component	Domestic			PSAWR		
	Current	Proposed	% Increase	Current	Proposed	% Increase
Imported Water Costs	\$2,198.65	\$2,420.72	10.1%	\$1,605.88	\$1744.49	8.6%
VCMWD	\$273.64	\$278.57	1.8%	\$273.64	\$278.57	1.8%
Total	\$2,472.29	\$2,699.29		\$1,879.52	\$2,023.06	
Wholesale Rate Increase		\$222.07			\$138.61	
Total Proposed Increase		\$227.00	9.2%		\$143.54	7.6%

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As a percentage, the Permanent Special Agricultural Water Rate (PSAWR) increase is lower because the charges discussed below are not paid by PSAWR customers. Agricultural sales are estimated at 60% of the total volume of water sold for FY 2023-24, compared to the prior FY estimated agricultural sales of 62%. As of March 31, 2023, there were 637 Certified Agricultural customers in the PSAWR program. The PSAWR rate differential is comprised of:

\$ 148 / AF	avoided not paying the SDCWA Supply Reliability Charge;
\$ 316 / AF	avoided paying the MWD supply rate and not paying the melded SDCWA melded supply rate; and
\$ 212 / AF	avoided not paying the SDCWA Storage Charge, for a total of:
<u>\$ 676 / AF</u>	

The current FY 2022-23 PSAWR rate of discount is \$578 per acre foot.

Also included in the water charges the District is required to pay SDCWA and Metropolitan Water District (MWD) in 2024 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 a 10% reserve for sales levels under budgeted amounts. For FY ending 2024 budgeted sales are 16,000 acre feet and the 2024 projected fixed charges are allocated over 14,400 acre feet. Total fixed charges from the SDCWA and MWD are 0.14% lower than estimated actuals for FY 2022-23, reflecting the continued decline in water sales.

At this time, the District's local cost component of the water rate, effective February 1, 2024, is proposed to be \$278.57 per acre foot. This represents an increase of 1.8% over the current rate of \$273.64. This 1.8% increase generates additional revenue of \$78,756 on an annual basis.

The proposed budget includes increasing the monthly water service charges by 1.8%. This 1.8% increase would generate additional service charges of approximately \$162,576 over a 12-month period. We propose the increase be implemented on February 1, 2024, concurrent with the VCMWD Commodity Rate. This results in proposed service charges as shown below.

Proposed Water Service Charge				
Meter Size	Water Service Charge		Fire Service Charge	
	Current	Proposed	Current	Proposed
¾"	\$ 47.46	\$ 48.31	\$ 9.94	\$ 10.11
1"	\$ 64.84	\$ 66.00	\$ 13.91	\$ 14.16
1.5"	\$ 97.26	\$ 99.00	\$ 20.74	\$ 21.24
2"	\$ 129.69	\$ 132.00	\$ 27.56	\$ 28.32
3"	\$ 194.53	\$ 198.00	\$ 41.49	\$ 42.48
4"	\$ 259.38	\$ 264.00		
6"	\$ 389.07	\$ 396.00		
8"	\$ 518.76	\$ 528.00		

With these increases, the FY 2023-24 budgeted local operating costs would be covered by 27.4% with revenue from the Local Commodity Component and 59.6% with the Meter Service Fee for a total of 87.0% coverage with Local Revenues alone. The remaining 13.0% will be covered with Non-Operating Revenues, including investment income, lease revenue, and other miscellaneous non-operating income.

Total energy costs (electricity, natural gas, and pump & motor maintenance) are estimated to increase by 12.8% over the prior FY. The Pumping Rate Reserve was depleted in FY 2016-17 and every year since energy costs have exceeded pumping revenues at a rate higher than the District could raise rates.

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There are no changes to the existing wastewater service rates and charges proposed for February 1, 2024.

There is however one new charge proposed for the Lower Moosa Canyon Wastewater service area. It is a fixed \$12 per month per EDU Capital Improvement Charge that along with a \$1.1M loan from the General Fund is required in order to meet the capital improvement requirements outlined in the Moosa Plan (approved by Board Feb. 21, 2023). The Capital Improvement Charge would generate an additional \$350,000 in annual net revenues needed to meet the debt service requirements to be eligible for funding from the Clean Water State Revolving Fund Loan Program.

Note: The SDCWA plans to present their rate options to their Board for final adoption on June 22, 2023. Actual rates to be adopted in June 2023, effective Feb. 1, 2024, may be slightly different.

Staff has determined the need to establish a reserve for the Low Pressure Sewer System (LPS) at the Lower Moosa Canyon Water Reclamation Facility Service Area. This reserve will be funded with the net revenues from the LPS Charge and it will be utilized for the maintenance and replacement of the LPS pumps. The LPS reserve should provide funds to repair and ultimately replace the grinder Low Pressure Sewer pumps. A similar Reserve already exists for the Grinder Pumps in the Woods Valley Ranch WRF Fund.

Action: Upon motion by Smith, seconded by Ness; motion to approve the following Resolution passed unanimously:

RESOLUTION NO. 2023-21

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE
VALLEY CENTER MUNICIPAL WATER DISTRICT ADOPTING
THE FINAL OPERATING AND CAPITAL BUDGET FOR THE
FISCAL YEAR 2023-24 AND ESTABLISHING CONTROLS ON
CHANGES IN APPROPRIATIONS FOR THE VARIOUS FUNDS**

Was adopted by the following vote, to wit:

AYES: *Directors Polito, Ferro, Holtz, Smith, and Ness*

NOES: *None*

ABSENT: *None*

AND

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

ORDINANCE NO. 2023-07

**ORDINANCE OF THE BOARD OF DIRECTORS OF THE
VALLEY CENTER MUNICIPAL WATER DISTRICT AMENDING
THE ADMIN CODE TO PROVIDE FOR CHANGES IN AUTHORIZED
STAFFING LEVELS PER THE FY 2023-24 BUDGET AND STAFF
ORGANIZATION AND TO INCORPORATE CHANGES PER THE APPROVED
MEMORANDUM OF UNDERSTANDING WITH EMPLOYEES**

was adopted by the following vote, to wit:

AYES: *Directors Polito, Ferro, Holtz, Smith, and Ness*

NOES: *None*

ABSENT: *None*

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Note: Ordinance No. 2023-07 is an urgency ordinance and shall retroactively take effect (mid-shift) July 1, 2023, to comply with the M.O.U. with the District Employees' Association adopted by Ordinance No. 2019-04 affecting employee compensation to be effective July 1, 2023, mid-shift, and therefore this ordinance must take effect before that date.

AND

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

ORDINANCE NO. 2023-08

**ORDINANCE OF THE BOARD OF DIRECTORS OF THE
VALLEY CENTER MUNICIPAL WATER DISTRICT AMENDING
ADMIN CODE SECTION 50.2(a) BUDGET POLICIES – RESERVES**

was adopted by the following vote, to wit:

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

GENERAL MANAGER'S ITEM(S)

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

San Diego County Water Authority Board Meeting Summary for May 25, 2023 was reviewed.

Action: Informational item only, no action required.

9. General Information:

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

Action: Informational item only, no action required.

DISTRICT GENERAL COUNSEL'S ITEM(S)

General Counsel de Sousa provided an overview of pending legislation.

ADJOURNMENT

Action: Upon motion by Smith, seconded by Ness; motion to adjourn passed unanimously, the regular meeting of the Board of Directors was adjourned at 3:19 PM.

ATTEST:

ATTEST:

Robert Polito, President

Kirsten Peraino, Secretary

Approved at a regularly scheduled Board Meeting on Monday, July 17, 2023